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SPECIAL DOUBLE ISSUE

On Patrol with the Contras

Why Nicaragua's Rebels Are Fighting

By Jack Wheeler

ANNUAL FINANCIAL ISSUE

- Doug Casey
- Terry Coxon
- Jim Davidson
- Mark Hulbert
- William Rickenbacker
- Daniel Rosenthal

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JUNE-JULY 1984 / VOL. 16, NO. 2

reason

Free Minds and Free Markets

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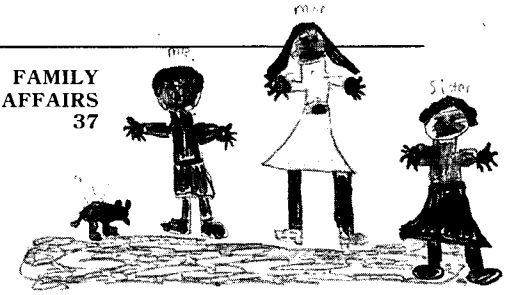

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NOTEs

This special double issue is REASON's annual financial issue, a tradition begun in 1974. REASON had been around for six years at the time, the economy was in turmoil, and previously novel hard-money investments were becoming the norm. Two free-market-minded investment advisors, Robert H. Meier and Edward H. Crane III, put together a blockbuster financial issue that covered everything from bullion to yen. The readers liked it, and liked it in the ensuing years; and so here we are.

The cover story this month is the second in Jack Wheeler's series of investigations of Third World guerrilla movements that are opposing Soviet-backed Marxist governments. For our April story, Wheeler had traveled with Jonas Savimbi and his UNITA troops in Angola. And for this one he slipped into Nicaragua with some of the Contras operating out of Honduras. He relates his findings and some background on the situation in Nicaragua beginning on page 28.

Mark Skousen debuts on page 74 as the magazine's new investment-advice columnist. REASON has had a Money column since February 1973, and financial writer Steve Beckner, author of *The Hard Money Book*, did the column bimonthly since 1980. Steve's own work (financial and investment reporting for the *Washington Times*) is less advisory than reportorial these days, so we're bringing on board investment expert Mark Skousen. Besides having authored several investment books (*Mark Skousen's Complete Guide to Financial Privacy* and *High Finance on a Low Budget*), he is the editor of the newsletter *Forecasts & Strategies* and consulting editor of several others. Coincidentally with this change, we have renamed the column "Investments." We hope you look forward to Mr. Skousen's thoughts every other month, and we wish Steve Beckner well in his work.

REASON is continuing to evolve on other counts, as well. A new department in the back of the book titled "Life & Liberty" appears on page 78. We thus end a long tradition of monthly movie reviews and the recent addition of occasional theater reviews. Our plan in Life & Liberty is to continue to cover the cultural terrain, sometimes with reviews of current offerings and sometimes with more broadly inspired pieces on the arts. But we also want to have a forum for other sorts of reflections and analyses on the things that concern and delight human beings outside the political realm. We hope you enjoy the department as it unfolds over the coming months.

If you care about personal freedom, where are the best and worst places in the country to live? The editors are thinking about doing a story on just that subject, and you could help. Do you know of instances in which your state or locality makes it particularly difficult—or easy—to do what you want to do (set up a business, operate a private school, work out of your home, incorporate, provide a service such as gardening or child care . . .)? If so, you might let us know, with a newspaper clipping, a short note, whatever gives us information about the law or policy. Send it to: WHERE TO LIVE, Reason, Box 40105, Santa Barbara, CA 93103.

For a song, you can win $100! The Rampart Institute is sponsoring a contest for the best original ballad, sing-along, or folksong celebrating individual liberty. Details can be obtained from P.O. Box 4, Fullerton, CA 92623.

—M. Z.

Readers who want a good overview of the progress of privatization in Great Britain (a subject covered here in John Blundell's February 1983 article) may want to order a new report on the subject. It's called "Privatisation in Britain: The Threat Turns into a Promise—of Higher Efficiency," and is written by Michael W. Imeson. It is available for $3.00 from the Council for International Urban Liaison, 1120 G Street NW, Suite 300, Washington, DC 20005.

Just since last issue's announcement of our new Reason Foundation radio program, *Perspective on the Economy*, REASON readers have helped us add four more stations to our network, for a total of 159. Within the next month you'll be receiving a letter explaining how you can help to keep *Perspective* on the air and growing. We'll enclose a copy of our new brochure that you can take to your favorite radio station to tell them all about the program. We hope to have *Perspective* on 200 to 250 stations by year-end.

—R. W. P.

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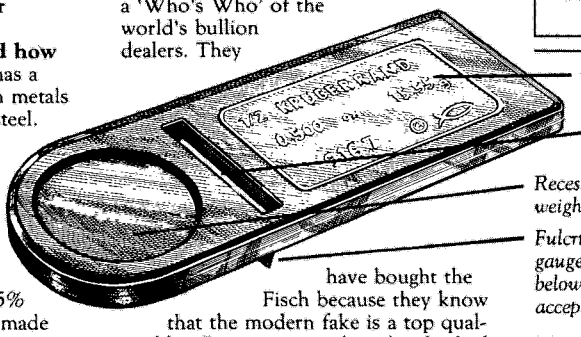
The only metals with a density comparable to gold that could theoretically be used to make a fake correct in both weight and size are certain platinum group metals and tungsten. Platinum group metals are too expensive to use. Tungsten is an extremely hard brittle metal that would be difficult to work into a passable fake. No tungsten based fake gold coins or 1-oz. bars have ever been reported.

Modern Fakes are Dangerous. Visually identical to a genuine coin, the modern fake is a serious threat to your money. The biggest bullion dealers in the world do not underestimate the danger: The Fisch has been bought by major dealers and banks throughout the United States and Canada as well as in London, Zurich, Hong Kong, Frankfurt, Tokyo, Johannesburg, Nassau and Buenos Aires — their names read like a 'Who's Who' of the world's bullion dealers. They have bought the Fisch because they know that the modern fake is a top quality fake. Every coin needs to be checked carefully. The Fisch checks a coin in seconds and there is no room for error — a coin either passes all 4 checks of weight, diameter, thickness and shape or it is rejected.



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EDITORIAL

Robert W. Poole, Jr.

Rethinking NATO—For Real

All of a sudden the idea that Western Europe should take on the burden of its own defense (a recurring theme in REASON) has moved into the mainstream. In March, *Time* magazine gave five pages to Henry Kissinger's plan to "reshape NATO," suggesting a phased withdrawal of up to half the US troops and the transfer of greater control to Europeans. Irving Kristol has gone further, in the *New York Times Magazine*, suggesting the "shock treatment" of complete withdrawal to force creation of an "all-European NATO." Defense analyst Earl Ravenal, economist Melvyn Krauss, and columnist William Safire have all been sounding similar themes, and *Harper's* ran a long panel discussion, "Should the U.S. Stay in NATO?" in April.

The principal arguments have by now become well-known. First, the credibility of the American "nuclear umbrella" over Europe has all but evaporated. What US president would actually unleash a nuclear strike on the Soviet Union (thereby risking the survival of this country) in an attempt to save Europe from a Soviet invasion? Second, long-term dependence on American troops and dollars has undermined Europeans' willingness to take seriously their own defense, as indicated by their relatively low levels of defense spending—and their susceptibility to naive peace movements.

Interestingly, even some European leaders seem to appreciate these points. French president Francois Mitterrand has said that "one must not give oneself up to the protection of a country outside our continent." His rival Jacques Chirac has spoken out strongly in favor of "European defense." David Owen, leader of Britain's new Social Democratic Party, has called for Europe to take control of its own defense, freeing itself from US domination. And even former West German chancellor Helmut Schmidt now agrees that America's dominance of NATO is unhealthy and that a partial withdrawal of US troops "would not necessarily be a misfortune."

Unfortunately, inherent in the thinking of nearly all of these people is a basic fallacy. What's essential, agree Kissinger and Kristol, is that the Europeans engage in a massive buildup of their conventional forces, so as to be able to withstand a Soviet invasion—without resorting to nuclear weapons. (The dismal alternative, says Kristol, is a Finlandized detente with the Soviet Union.)

Generals are notorious for preparing to fight the last war, and statesmen and intellectuals are prone to make the same error. Overwhelming evidence indicates that the most likely Soviet threat to Europe is a decapitating surprise attack on (unprotected) NATO military installations—using nuclear, chemical, and conventional munitions, along with "Spetsnaz" sabotage teams.

This type of scenario is clearly spelled out in Soviet military literature, which makes no distinction between "conventional" and nuclear/chemical/biological operations. (See Joseph Douglass and Amoretta Hoeber's *Soviet Strategy for Nuclear War* and Viktor Suvorov's *Inside the Red Army* for details.) A lightning strike that destroyed NATO's military capability before it could be used would avert nuclear retaliation while opening the way for Soviet domination of a disarmed—but intact—Europe. That has to make far more sense to the Soviets than a World War II–style tank invasion.

Thus, a massive buildup of conventional or even high-tech nonnuclear battlefield weapons would have little real military usefulness—or deterrent value. There are also serious questions about the vulnerability of the much-touted high-tech weapons to spoofing and other countermeasures. Moreover, because conventional weapons are much more costly, kiloton for kiloton, than nuclear weapons, the conventional-forces alternative is much less likely to be judged "affordable" by European politicians. So if that really is the only alternative to Finlandization, the odds for Europe's independence are not great.

What most advocates of rethinking NATO have not faced up to is the nuclear alternative. What would *actually* deter a Soviet surprise attack on Europe? Not thousands of useless antitank weapons. What the Soviets fear most is survivable nuclear retaliatory forces under European control—especially West German control. If a European Defense Force is to be credible, *that's* what's going to be required.

To be usable, such nuclear forces must meet several criteria. First, they must be mobile so that they have a realistic chance of surviving a surprise attack. Second, they must be highly accurate, so that they can be used solely against military targets without wiping out cities (thereby inviting counterstrikes against Bonn, London, and Paris). Third, they must be of low yield, especially when aimed at Soviet forces in Eastern European countries, whose people should be reassured that *they* are not the targets, only their Soviet occupiers. Fourth, many of these weapons should be capable of reaching the Soviet Union, whose military installations should be a prime target of retaliation.

What's striking about these requirements is how closely they parallel the attributes of the Pershing II and cruise missiles now being installed in Europe (unfortunately, under US control, paid for by US citizens, and at vulnerable, fixed sites). These attributes are sadly lacking in the present British and French nuclear forces, which are mostly inaccurate city-busting ballistic missiles and very short-range tactical nukes. What's needed is to replace these dangerous, obsolete weapons with new-generation nuclear weapons solely under European control.

Armed with credible nuclear weapons, Europe could easily defend itself. And the Western world would be much safer if it did. As Harvard's Adam Ulam, a respected Sovietologist, puts it, "The Soviet nightmare is that Western Europe will unite politically and rearm itself vigorously, thereby leaving the Soviet Union facing two superpowers instead of one." Our self-protective aim, as Melvyn Krauss has declared, should be to help make that nightmare a reality.

Robert W. Poole, Jr.

The Top Performers

Which Investment Advisor Will Make You The Most Profit Over the Next 12 Months?

No one can answer that question for certain. But Mark Hulbert can answer the next best questions. For certain. Such as which investment advisor made the most profit during the *last* 12 months? How did he do it? What level of risk was involved? And, most importantly, who's making the most money *now*?

Hulbert, a graduate of Oxford University, became convinced a few years ago that investors lose millions of dollars because they lack information.

"They tend to follow the advice of one investment advisor without any sure way of judging the quality of the advice," he says.

Hulbert, who has spent years analyzing investment performance, decided to put his talents to work scrutinizing investment advisory services.

He admits that he didn't know what to expect. But he knew what questions to ask. And now he has more answers than most people could imagine. He can tell you which of the more than 90 portfolios he follows made the most money last year, for example. The answer: a publication called *The Prudent Speculator*, with a profit of 73% for the year.

Hulbert can tell you in any given month which advisor is doing best for the month...and which has the best *long-term* record. He also keeps track of the performance, adjusted for risk. "So you can make sure that you're not taking an unreasonable risk as you pursue extraordinary profits," he explains.

Hulbert's figures come out each month in his own newsletter called *The Hulbert Financial Digest*. This maverick publication digests the advice of other financial experts—including such well-known advisors as Jim Dines, Howard Ruff, Harry Schultz, Joe Granville, Martin Zweig and many others.

(It may interest you to know that one of that group has a portfolio that made a profit of 151% during the first quarter of this year alone! Who has the hot hand?)

The Hulbert Financial Digest presents a summary of the advice offered by the experts he covers, along with an analysis and commentary from the editor.

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"This is a way to make sure you're getting your money's worth out of an investment advisory service," says Hulbert. "We'll tell you who is making money and who is not."

One of the investment advisors who has made a lot of money for his subscribers lately is Jim Dines. Dines has four portfolios followed by Hulbert. In a recent 12-month period, one of these portfolios made a gain of 336%. Overall, his portfolios averaged more than 80% profit.

Another star performer in the beginning of this year was *The Option Advisor*, with first-quarter gains in its two portfolios of 89% and 98%. It should be pointed out, though, that *The Option Advisor lost* more than 90% of its value during the preceding year.

"The investors who subscribe to my service," says Hulbert, "have a clear advantage over those who don't. Not only does *The Hulbert Financial Digest* tell investors which investment advisors are doing best, it also distills huge amounts of verbiage into a simple, straightforward summary. This enables the busy investor to get the most useful information in the least time."

Mark Hulbert stands behind his figures...and his service. He offers an iron-clad guarantee to anyone who takes advantage of his trial subscription offer.

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This guarantee allows curious investors a chance to try Hulbert's publication *without risking a penny.*

"It would be foolish for an investor not to give this offer a try," Hulbert maintains. "The average investor has thousands and thousands of dollars at stake."

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Letters

The Health Hazards Of Government

Edith Efron's "Behind the Cancer Terror" (May) overlooked one of the biggest causes of cancer in our society—one that, fortunately, can be quickly eliminated by bold government action.

Consider this syllogism: scientific research has established that stress potentiates and in some instances "causes" cancer. One of the biggest causes of stress in our society is government—its oppressive taxes, secret police, intrusive regulations, and the like. Therefore, government causes cancer.

As Efron noted, certain scientists and government regulators have sought to ban chemicals judged hypothetically able to cause cancer only in the single most susceptible person in our nation. Would any scientist deny the possibility that stress caused by, say, the Internal Revenue Service has caused cancer in susceptible taxpayers? How many will die 30 or 40 years hence because of the stress the IRS causes today? Does an environment polluted with government-caused stress react synergistically with otherwise-harmless chemicals to cause cancer?

Until science better understands the subtle links between government and stress and cancer, the only prudent and responsible policy is for government health agencies to impose rules forbidding all stress-causing activities by all government tax, police, and regulatory agencies. Surely those who have long and loud professed concern with public health and well-being will agree, will take up the "Stop Government-caused Cancer" banner, and will support lawsuits by millions of cancer victims against our stressful government. It's time the scientific community acknowledged that the bigger government gets, the more hazardous it is to our health.

Lowell Ponte
Carlsbad, CA

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Ideas, Not Dollars The Ultimate Defense

Congratulations on your April editorial ("Defending Everyone?") wondering why—and how—the Pentagon is committed to defend more than 40 nations strung around the globe. It reminds me of Henry Hazlitt's classic of the late 1940s *Will Dollars Save the World?* published by the Foundation for Economic Education. I don't mean to minimize the need for national defense but you and Hazlitt are correct—neither dollars nor guns will save the world. But ideas can, for, as Richard Weaver reminded us, they do have consequences.

William H. Peterson
University of Tennessee, Chattanooga, TN

Water, Not Walls For Mideast Peace

I was glad to see that REASON had the editorial courage to publish a controversial proposal such as Sam Cohen's "Wall Against War" (March)—even if it is questionable on technical, military, economic, political, and moral grounds.

Technically, it is difficult to understand how Cohen's radiation barrier could be made to work as described: innocuous to bystanders 3,000 feet distant, but instant death to aggressors at point-blank range. Militarily, it seems that a barrier of this sort would be only marginally effective: incapable of impeding air attacks, but substantially impeding (if not precluding) the Israelis' heretofore highly successful strategy of counteroffensive action. Economically, it is difficult to believe Cohen: a complex of multiple underground reactors; radiochemical processing, treatment, and disposal facilities; several thousand miles of leakproof piping; and over 2,000 square miles of modern Maginot Line, but constructed for "roughly several billion dollars."

Even more significant, perhaps, are the political and moral shortcomings of Cohen's wall. Politically, he would treat the symptoms of a problem (warfare) without bothering to deal with the problem itself (conflicting territorial claims). The willingness of Arab nations to aggress against Israel does not stem from their misperception of Israel as a weak nation. Indeed, Israel has demonstrated the contrary fact consistently over the past 30 years. How can the presence of a new barrier deter the Arabs from aggression, when its most likely effect will be to intensify their discontent over territory they feel is being unjustly withheld from them? And morally, Cohen's proposal takes for granted the notion of irremediable racial conflict and seeks only to *perpetuate* the animosity between Israel and its neighbors by erecting a deadly fence between them.

Is there no solution that would attempt to reconcile the Arabs and the Jews by an appeal to their mutual interests? One of the greatest needs, and most prized resources, of the Arab nations is fresh water. The discontent over land stems partly from the scarcity of this commodity. Instead of developing a massive atomic technology to produce millions of gallons per day of radioactive poison, why couldn't Israel instead apply that technology to the large-scale desalinization of seawater, wherewith the Arab lands may be made to bloom? Surely, the Arabs would welcome such a miracle and would be reluctant to raise arms against such beneficence. But this path to peace would require a policy based on reconciliation with and respect for the lives of one's enemies—a path that, of all paths, should surely harmonize with the Hebrew faith.

Michael J. Dunn
Auburn, WA

Fine Reading

From Jack Wheeler's article on Angola to Steve Beckner's Money column, REASON's April issue is the best ever. A copy should be in every home and office in the United States.

Writers Julian Simon, Charles Kelly, Nathaniel Branden, James Davidson, Steve Beckner, and William H. Meckling were all in top form with lots of important information and ideas on what has happened to the Republic and its people.

Since I am an old man who started to school in 1909, I have a small bone to pick with Mr. Meckling in spite of his very fine article ("American Capitalism at Sunset"), with which I am in complete agreement, except for what seems to me his overemphasis of "democracy." When I began school (to get the day

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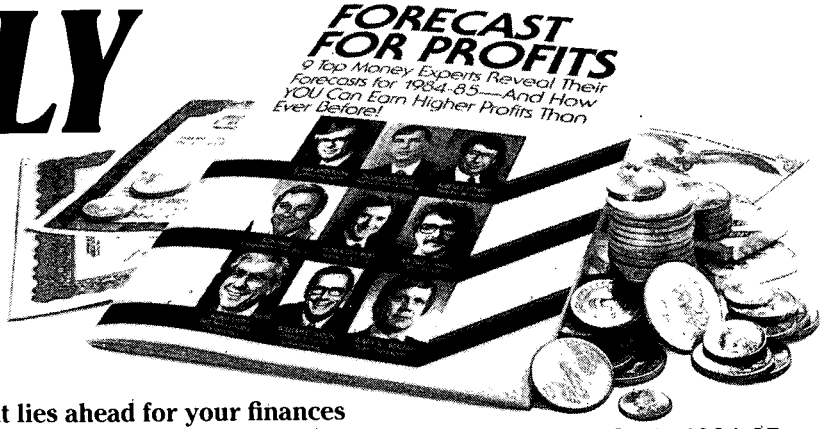
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LETTERS

started) we were taught a patriotic song which ended, more or less, "and for the Republic for which it stands...." For quite some time after I left that little school, "the Republic" still stood for our bit of America. I've read the Constitution several times lately and the word *democracy* is not to be found. "The Republic" is everywhere.

For some time I've been wondering why "the Republic" was dropped and we became a democracy, and if this change had any influence over the downfall of our once great Republic. After all, the House is, and has been for much too long, preponderately Democratic—which is probably beside the point, since both Democrats and Republicans seem equally dedicated to the proposition of robbing the productive to pay the nonproductive.

John H. Yaple
Ranchos de Taos, NM

Spencer Misunderstood

I thoroughly enjoyed Nathaniel Branden's "The Self-Fulfilling Polity" (April), but his view of Herbert Spencer's defense of capitalism was off the mark.

Spencer's law of equal freedom—"that every man has freedom to do all that he wills, provided he infringes not the equal freedom of any other man"—is the central point of his philosophy, as magnificently expressed in *Social Statics, The Man vs. the State*, and part four of *The Ethics*. Spencer's defense of laissez-faire capitalism is clearly founded in the ethics of individualism and voluntarism. What Branden mistakenly identifies as Spencer's purpose—that is, the improvement of the species, etc.—is not Spencer's reason for approving freedom; it is, rather, a natural consequence of the operation of freedom.

Branden's view of Spencer sounds more like a view derived from the reading of critics of Spencer rather than a reading of the works of Spencer—clearly a mistake.

Robert Slomovitz
Plainview, NY

The Medical Marketplace

Regarding the Trends report on the doctor supply in the March issue ("The Market Resuscitates," page 18): The growing supply of doctors in the United States is indeed driving down the price of medicine. Despite the bah-humbuggers who refuse to acknowledge the positive effects of a competitive marketplace, the cost of many standard medical procedures—including birth-delivery, cancer-detection tests, vasectomies, and many other routine surgeries—is declining.

Still, there are representatives of many medical associations who insist the growth in the number of doctors should be restricted. We can only speculate what would have happened 10 years ago had it been decided that we have an "oversupply" of lawyers, and policies had been adopted to dramatically curtail their numbers. Access to legal assistance would still be limited. Legal advice would have remained a luxury. And a simple divorce might still cost $5,000.

Becci M. Breining
National Center for Policy Analysis
Dallas, TX

Cheers to Davidson

One for the road to you for publishing Jim Davidson's April Viewpoint column. He gives a good description of America that many in our pragmatic culture have ignored. Davidson's optimism is very much the 19th-century optimism of capitalist glory.

But Davidson ignores altruism as a motive for many and so is led to think people want tyranny because of benefits. The unhappy truth is that the desire to sacrifice oneself, so insidiously influential, leads people to obey a collectivist government.

It's an unusually well-written piece, and I say this despite being stoned and ready to leave for my favorite bistro, hear some good rock music, and have one for the road.

Stephen Grossman
New Bedford, MA

Want Competitive TV? Remove Entry Barriers

Joseph Martino's discussion of the challenge that direct broadcast satellite (DBS) television presents to broadcasting regulation ("Signal Victory for the First Amendment?" March) was highly informative. However, DBS, cable television, and other technological advances do not eliminate the problem of scarcity in the broadcasting industry—they just help us cope with it better. The broadcasting spectrum will continue to be limited for the foreseeable future.

Sadly, Martino's assessment of the Federal Communications Commission's (FCC) direction under Mark Fowler's chairmanship is misguided. The most important element of economic deregulation is the relaxation of entry restrictions. The Fowler FCC's key test came when it considered creating slots for 400 to 700 new radio stations by reducing the spacing in the AM band from 10 kilohertz to 9, as recommended by the Carter administration's FCC and most experts. Fowler and his colleagues declined the opportunity by a vote of four to two.

An FCC that really wanted to deregulate broadcasting would refuse to abolish archaic rules except as part of a package deal that would reduce entry restrictions on a firm schedule. The current commission's policy of eliminating rules that inconvenience broadcasters, without extracting a price, will only prolong the life of broadcast regulation, enable broadcasters to continue to collect monopoly rents, and delay the arrival of a truly competitive market. The viewing public is the loser.

John V. Buffington
University of Delaware
Newark, DE

True Security Through Stability

I was pleased to read Daniel T. Connolly's letter "I'm Ready to Deal—If the Politicians Are" (March). I, too, am a retired Social Security recipient and share Mr. Connolly's concern. Those of us in this group, I would think, would be well advised to eschew ever-increasing demands on the Social Security system in favor of setting an example for government restraint, thereby stabilizing our economic balance. Whereas the American Association of Retired Persons is constantly striving for ever increasing SS benefits and medicare payments, the National Alliance of Senior Citizens takes a contrary view that retirees are better served by sound fiscal policies and government economy.

I. W. Tucker
Louisville, KY

Communism, American-Style

Upon reading Prof. James Payne's treatise on basic economics ("When the

(Continued on p. 93)

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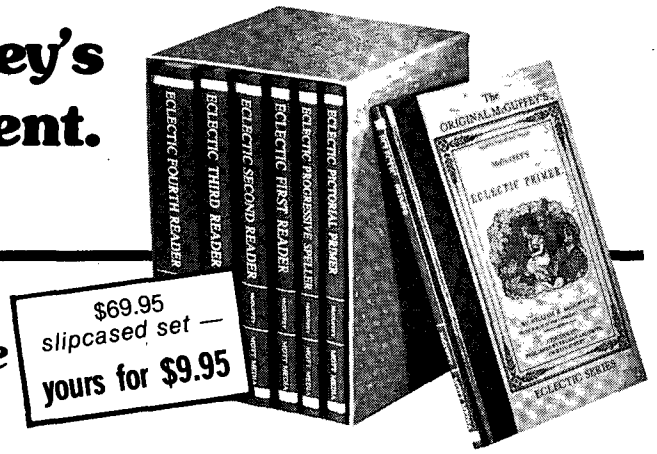

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brickbats

Federal marshals armed with .38-caliber revolvers stormed into a little candy factory in St. Louis and seized and destroyed 19 pounds of chocolate. And it wasn't even laced with cyanide. No sir, this candy was *really* dangerous—it contained Grand Marnier liqueur. It's against federal law to transport across state lines for sale bonbons that contain more than 0.5 percent of alcohol. The goons from the Food and Drug Administration acted under a 1938 law pushed by die-hard prohibitionists fearful that candy-loving toddlers would enslave themselves to Demon Rum. The saddest part of this story is that the FDA admits it couldn't enforce this foolish law if not for candy makers snitching on each other. "Once we slap somebody's fingers, they become real tattletales," said FDA official Raymond E. Newberry.

Turnabout is fair play? A gunman entered a Florida prison dormitory and robbed an inmate serving an armed-robbery sentence of a stereo, radio, TV set, and $30 in cash. "The whole inmate population is still in shock," said the superintendent of the minimum-security Pompano Beach Community Correctional Center. "If you're not safe in prison from armed robbery, where are you safe?" The center, which provides a work-release program to its 140 guests, has no bars, no barbed wire, and no armed guards. The suspect is a convicted robber and former inmate at the center who failed to return from work on the outside. He didn't return to *stay*, that is.

New York Gov. Mario Cuomo has been toiling in the vineyards for too long without a hat. Sales of New York State wines are down because of heavy competition from inexpensive California and European brands. So Cuomo thinks New York grocery stores should be prohibited from selling anything but New York wines. Sounds like sour grapes to us.

Don't ever cross a Minnesota social worker. These public servants managed to have a couple involuntarily committed to separate detoxification centers on the say-so of the couple's 15-year-old daughter, who told the social workers that her parents were alcoholics. So without bothering to verify the teenager's statements, the social workers obtained commitment papers and, armed with sheriff's officers, arrested the couple at their home. The sweet young daughter later confessed that she wanted to be placed in a foster home so she would be able to "get away with a lot more stuff," such as staying out late at night. There is a happy side to the story. The couple was awarded $250,000 in compensatory and $12,000 in punitive damages. The social workers? They were reprimanded but continue to serve mankind.

Once reviled as exploitation, maid service is making a comeback in Peking as living standards rise. Peking's first contract maid service in the new era has found jobs for 145 women in two months. That fact was reported by the newspaper *Economic Daily*. Of course, the paper had to waffle the details a little, since unemployment officially doesn't exist in the People's Republic.

You might say that Rene Cote, 26, of Concord, New Hampshire, wound up on the wrong end of the law. He ran out of a courtroom after a judge sentenced him to a jail term for receiving stolen property. Hillsboro County Sheriff's officers dutifully shot Cote in the buttocks, slowing down his escape somewhat. But that's not the end of it. Cote has now filed a $750,000 suit against the county, claiming anguish, humiliation, and a very tender bottom. He won't take this sitting down.

The oldest female inmate in Georgia is great-grandmother Maybel Cawthorn. The 82-year-old felon got probation the first time she was caught selling marijuana but was sentenced to three years in prison for doing it again. She sold the staggering amount of $25 worth (less than one ounce) of the weed to an undercover Georgia Bureau of Investigation agent.

It was bound to happen one day. A Harvard- and Princeton-educated architect has invented the vandal-proof toilet for New York City's parks. No electricity, no heat, no hot water, no doors—your basic no-frills john. Everything is made of stainless steel. "There is nothing in it to be vandalized," says the proud inventor. Oh, by the way, bring your own toilet paper. Officials say holders for toilet paper won't be installed either, because they're too easily vandalized. How do you spell relief?

Important Facts Department: David A. Kurtz of Pennsylvania State University told a press conference during the annual meeting of the American Chemical Society that naked gardeners typically pick up 16 times more pesticide on the body than gardeners wearing a shirt, pants, and shoes.

—MARK EDWARD CRANE

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In addition, Mr. Seltz has authored 16 books and more than 2,000 articles. He has received recognition in such publications as *Nation's Business, Business Week* and *The New York Times.* And columnist Sylvia Porter has referred to the Seltz organization as "foremost in the franchising field."

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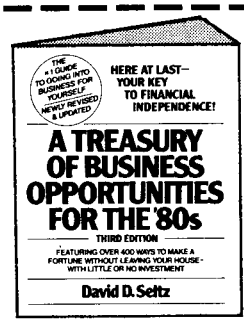
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TRENDS

STAR WARS GAINING GROUND

The idea of building defenses against nuclear attack—rather than relying only on retaliation—is picking up support, even while continuing to come under critical attack from some quarters.

In the first serious polling devoted to space-based defense, Arthur J. Finkelstein & Associates surveyed 1,000-odd California voters in February. Overall, 82 percent supported the idea of developing a satellite system to defend against nuclear attack. High levels of support were found among Republicans, Democrats, and independents, with more than two-thirds favoring the concept in each group. Support was strongest among those under 26 and weakest among those 65 and over. Interestingly, when asked to rank a list of defense projects, including the B-1 bomber, nuclear submarines, the MX missile, and cruise missiles, along with a "system to defend against incoming nuclear missiles," an overwhelming majority favored the defensive option.

But will it work? That's the quesion most often asked, and the objection most often raised to the "Star Wars" concept. Those in the disarmament community—for example, the Union of Concerned Scientists—maintain that such a system would be a cruel hoax unless it provided a virtually leakproof defensive shield. And important Defense Department factions make the same argument, maintaining that a decade or two of R&D on high-tech concepts is required before attempting to deploy any sort of system.

A strong dissenting view comes from advocates of using off-the-shelf technology to build an initial, less-than-perfect system. EX-NASA physicist Robert Jastrow, for example, has argued that even a system that would intercept only *half* the USSR's warheads would require them to at least double their weapons inventory (at huge expense) and would drastically reduce their confidence of succeeding in a nuclear attack.

And a recent Defense Department report by a panel of 12 weapons analysts chaired by Fred Hoffman makes an even stronger case for a low-tech, quick-fix initial system. First of all, a simple ground-based defense of US missile silos (achievable in two years for under $5 billion) would eliminate the present Soviet ability to wipe out most of those missiles in a first strike. And because the most likely Soviet attack would be against military installations, not cities (according to long-standing Soviet war plans), there are advantages to being able to protect military targets prior to the advent of a system leakproof enough to protect cities. Furthermore, a several-layer intermediate system would develop various core technologies that would form the basis for later, more advanced systems.

So there are a number of good reasons for getting on with the task, rather than waiting for an elusive degree of ultimate perfection.

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VOODOO VINDICATED

Critics called it "voodoo economics." But proponents of supply-side economics said it was only common sense: if you lower tax rates, people will produce more, because they can keep more of what they additionally earn; economic activity will increase; and total tax revenues will rise. Now comes powerful evidence that the supply-siders were not just preaching sorcery.

As economic journalist Warren Brookes pointed out in a recent syndicated column, changes since 1969 in the tax rates on capital gains (earnings on the sale of capital assets, such as stocks, property, or a business) offer a demonstration of the touted supply-side effect. In 1969 Congress raised the top capital-gains tax rate from 35 to 49 percent, thereby hoping to rake in an additional $2 billion a year in taxes. Instead, tax revenues from capital gains fell by about $1.7 billion. But in 1978 the top rate was cut to 28 percent—followed by a further cut to 20 percent in 1981—and total tax revenues from capital gains have steadily increased ever since.

Just as dramatically vindicatory of the supply-side hypothesis, Brookes also

noted, are the changes in new stock offerings following the changes in capital-gains tax rates. In 1969, when the top rate stood at 35 percent, 1,026 new stock offerings were made, with a value (in 1972 dollars) of $3 billion. But following the 1969 increase of the top rate to 49 percent, new stock offerings declined almost steadily; by 1978, new stock offerings numbered only 45, with a value (in 1972 dollars) of a mere $166 million. Then, following the 1978 tax cut, new offerings started to rise, and by 1983—after the top rate had been cut to 20 percent in 1981—875 new offerings were made, with a total value (again, in 1972 dollars) of $5.8 billion, nearly double the previous record high of 1969.

"It is no accident," Brookes wrote, "that 1983's unprecented 3.8 million new jobs coincided with and proceeded directly from the nearly 40 percent increase in the value of corporate stocks since August 1982." (Japan and West Germany, incidentally, whose economic performances are so widely acclaimed, have *no* capital-gains tax.)

Having pulled the rug from under the supply-side critics on the issue of the stimulative effects of lowering taxes, Brookes subsequently took up the matter of how the income-tax cuts initiated by the Reagan administration supposedly favor the rich. According to recently released Treasury Department data on income taxes for 1982—when individual tax rates on wages and salaries were cut an average of 7.5 percent—tax revenues from those making more than $100,000 a year were 13 percent higher than the year before, and revenues from those in the $50,000-or-more-a-year category were up 6 percent.

Conversely, tax revenues from those making less than $20,000 a year dropped 12 percent, while those making between $20,000 and $50,000 a year paid 4 percent less in taxes in 1982 than in 1981. A significant factor in this shift of the federal tax burden to the rich was a 55-percent rise in the number of returns filed by those with incomes of $1 million or more.

Reflecting on how "high marginal tax rates penalize chiefly the U.S. Treasury, not the rich," the *Wall Street Journal*, in an editorial entitled "Tricklenomics," further pointed out that "the tax cuts are fueling an entrepreneurial explosion. New incorporations have doubled since 1977, and may have hit a record 600,000 in 1983." And, noted the *Journal*, "Minorities and women are starting new firms even faster than the average."

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The data on the actual effects of cutting taxes not only suggest the powerful economic potential of even further tax cuts. They also put in doubt some of the current econometric predictions—based on past data from the high-tax '70s—of a coming downturn in the economy.

FAIRNESS DICTATES

FCC chairman Mark Fowler has long advocated repeal of the "fairness doctrine," the regulatory requirement whereby broadcasters must provide time for the opposition on controversial issues. The doctrine has ardent fans both left and right, but Fowler's deregulatory game plan is winning points.

In April, the *New York Times* asked editorially, "What's Fair on the Air?" Discussing the fairness doctrine, equal-time requirements, and other FCC intrusions into broadcast content, the *Times* sensibly concluded, "All that has meant Government sticking a big nose into journalism and politics."

The editorial spoke highly of the "freedom of expression bill" sponsored by Sen. Robert Packwood (R-Ore.), which would repeal the fairness doctrine, equal time, and similar rules. But the conversion has not been complete. The *Times* advocated retaining a requirement that broadcasters sell political campaign ads at their rock-bottom rates. The paper also favored some regulation of "issues advertising sponsored by wealthy private interests" (one wonders how the editors would take to the same requirement for their paper). But, arguing that these modifications could be incorporated in the Packwood bill, the editorial concluded, "Good politics, journalism and law indicate the next thing to do: Pass it."

In April the FCC itself took action on the fairness doctrine, voting unanimously to institute a notice of inquiry to determine whether the regulation should be retained. Commission Chairman Mark Fowler heralded the move with the statement that the inquiry is long overdue.

FCC spokeswoman Sally Lawrence told REASON that the notice of inquiry is in effect a study of the fairness doctrine. The commission will be taking testimony from a wide range of sources—but she cautioned that this doesn't necessarily mean that a commission vote to repeal the doctrine is around the corner. In any case, there is some question whether the doctrine is, in the words of FCC Commissioner Henry Rivera, "something that is more the proper province of Congress."

It is too early to tell whether the ball is in Congress's or the FCC's court—or perhaps both—and which direction it's moving. But at least the game is evidently on.

GLOBAL TRENDS

BRIBING UNTO CAESAR

ITALY—For devotees of freedom in Italy, there has been some reason for optimism lately. Italian governments are beginning to appreciate the wisdom of accepting and compromising with the huge underground economy in this country. Some officials might even become convinced that their regulatory efforts could be "sold" at a profit.

A good example is provided by a recent bill pending in the parliament. Housing regulations in Italy are so strict that enforcement is almost impossible. Even to change something *inside* your home, you need a special license, and the bureaucratic process is so long, complicated, and costly that many people simply ignore the laws. According to official estimates, there are several million "illegal" dwelling units built without the necessary licenses and authorizations.

The present government—the first in Italian history with a Socialist prime minister—is desperate to increase its revenue, so it is trying to make money out of the situation. One of the first bills it has proposed calls for *condono* (amnesty) for all violations of housing laws, provided homeowners pay any back taxes. The exchange would be mutually beneficial. The owners of "illegal" houses would no longer face the threat of demolition of their homes (or, in some cases, their own incarceration), and they would be allowed to settle the issue by paying a reasonable sum of money. The government would see its revenue increase by a substantial amount, perhaps as much as 10 trillion lire (about $6 billion). Even though the bill has been somewhat diluted by a series of amendments so that the more serious offenses would not qualify for amnesty, it would still yield at least $3 billion, according to official estimates.

The amount of revenue the government would be able to collect, however, is not the point here. What is more significant is the precedent that such a bill would establish. It would notify Italians that nonsensical government restrictions on their freedom can be violated and that the worst that can happen to them is that their violation might, at some future date, result in a pecuniary transaction with the government.

Maybe Italians will be able to "buy back their freedom." If one can't *change* the government, *bribing* it may be the second-best solution.

—ANTONIO MARTINO

GOOD THINGS IN SMALL PACKAGES

JAPAN—A visitor to almost any Japanese town will probably notice quite a few signs with pictures of black cats, a dachshund, an elephant, a bear, a lion, a pelican, or a stork.

(Continued on p. 18)

FEMINISM MEETS CAPITALISM

Is capitalism inevitably sexist? Is feminism inevitably socialist? Not at all. Indeed, capitalism and feminism can complement each other nicely. Just look at the fledgling industry of women's record companies.

The women's music that these companies record and market ranges from jazz to classical to bluegrass to folk music, some of it conventional and some musically innovative—but what makes it all distinctive is its feminist theme. Among the better-known artists of the genre are Holly Near, Meg Christian, the jazz group Alive!, and Margie Adam.

The business side of women's music is impressive. While many major record

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companies have been in financial hard times, women's record companies—almost none of which even existed 10 years ago—have grown to a point where they have a large share of the independent record market. They are grossing an estimated $2 million and chalking up sales of 200,000 records annually—and this doesn't include sales through a national distribution system that some share, feminist concert producers, and annual festivals. "All of a sudden, what record stores buyers considered esoteric music with a very limited audience is outselling major secondary artists," Jo-Lynne Worley of Redwood Records told *Mother Jones.*

All this is especially impressive considering that these companies are the creation of women with little or no previous experience in business. For instance, Judy Dlugacz is now the president of Olivia Records, the largest and oldest women's record company, and she's recently started a new company called Second Wave Records. Before Olivia, she was a political organizer in Ann Arbor, Michigan.

Olivia, like some of its sister companies, has origins very different from most businesses—it started out as a collective of five women—but with time it has, almost in spite of itself, adopted more-or-less capitalist features of business. Dlugacz describes the current internal structure of Olivia as "a humanistic hierarchy." She told REASON, "Some people are in control and their decisions filter down. But we allow people to be who they are. They even enjoy themselves some of the time."

Reflecting on her own experience, she noted, "When Olivia started, I was a young pup. On the whole, my views on business were not well formulated." But that has changed. "I have a tremendous respect and affinity for business now," she says. "Business people are going after a dream of doing their own independent thing. They're very creative. And it's incredibly hard work."

Mother Jones wouldn't say it, but getting into business can be quite an education about capitalism.

GLOBAL TRENDS

(Continued from p. 16)

One might expect pet shops behind the signs, but in fact the stores are liquor stores, agricultural cooperatives, rice stores, supermarkets, and convenience stores. And the animals on the signs are the trademarks of door-to-door package delivery services that use these stores as pickup stations.

It was in 1976 that Yamato Transport Company went into the door-to-door delivery business, inspired by the United Parcel Service (UPS) in the United States. Yamato's trademark, two black cats, is meant to symbolize the company's careful handling of customers' commodities, just as a mother cat affectionately carries her kitten in her mouth. Yamato's Black Cat Service became well known to the general public through its ad campaigns on television emphasizing the quality of its services.

Black Cat's unexpected success has prompted more than 30 other firms to enter the new business with other animal trademarks. As a result, a great deal of Japan's package delivery business has been diverted from the government-run postal system.

In 1979, the post office handled more than 199 million packages while private services handled only 35 million. In 1982, though, the situation was reversed: the post office handled 139 million packages while the private services handled 169 million. The postal system has 5,700 offices, but private carriers have developed gigantic networks of 200,000 pickup stations throughout Japan.

It's not hard to see why the private carriers have been so successful. Suppose you want to ship a six-kilogram parcel from Tokyo to Hokkaido. The post office's rate is 1,120 yen ($4.98), which looks like a bargain compared to Black Cat's fee of 1,300 yen ($5.78). But the latter includes special delivery, grievance settlement better than the post office's registered mail, and pickup service—features for which the post office charges an extra 950 yen ($4.23). Thus, Black Cat Service is actually charging 1,300 yen ($5.78) for slightly better service than what the post office provides for 2,070 yen ($9.21).

The only advantage of the postal service's package delivery is that the sender may attach a letter to the parcel, a practice prohibited to private services. (The Postal Administration Ministry is now on the alert against some of the private delivery companies that carry letters on the sly.)

There may come a time when private enterprises will be free to serve consumers with legal delivery of letters. But even now, Black Cat Service and its fellow delivery services are providing a stiff challenge to the post office.

—TOSHIO MURATA

SLOT SALES PROPOSAL MAY FLY

On occasion, the time becomes ripe for deregulation of economic activities when the mechanisms of regulation make everyone unhappy. Such a time may be imminent with the allocation of landing slots at at least four major airports—National Airport in Washington, Kennedy and LaGuardia in New York, and O'Hare in Chicago.

The need for change is growing. The allocation has long been a regulatory mishmash involving the federal government (primarily the Federal Aviation Administration) and, occasionally, committees of air carriers at each airport. In the wake of the 1981 air traffic controllers' strike, the number of landing slots was cut by the FAA. With the growing number of new airlines that have begun operation since airline deregulation, the defects of a regulatory system have become apparent. The set-up has ignored market dynamics and thus virtually invites its own paralysis.

In fact, paralysis is what has happened. At National Airport, slot allocation has been frozen temporarily. In Chicago, the airline committee for O'Hare has been trying for months without success to devise a scheme acceptable to all the carriers. The situation at New York's two airports isn't any better.

But now, for the first time in years, it looks as though the idea of introducing market allocation of landing slots is being taken seriously. This could be achieved by permitting airlines to buy and sell the slots. In the New York area, the Port Authority, which operates Kennedy and LaGuardia, has proposed a semiannual auction of peak-hour slots. And on the national level, the Office of Management and Budget and the Justice Department have both come around to supporting a market economy in slots, with airlines buying and selling slots among themselves. An OMB official told REASON that the proposal got a big boost last year when two Federal Trade Commission economists, Donald Koran and Jonathan

Ogur, published a study spelling out the case for market allocation.

Koran and Ogur's study, *Airport Access Problems: Lessons Learned from Slot Regulation by the FAA*, examined a six-week FAA experiment with market allocation in 1982. During that brief period, there was a flurry of slot sales among airlines—more than 190 landing slots changed hands, with price tags from $12,000 to $500,000 each. It was a fortunate experiment for new airlines such as People Express, which immediately bought up 12 slots at Newark's airport for $200,000. It is unlikely that People could ever have garnered this entry to the New York market under the conventional slot-rationing system.

Koran and Ogur concluded that the rationing system to which the FAA returned exacts huge costs that a market system would avoid. The regulatory system is inept at transferring slots from lower-valued to higher-valued flights and creates huge barriers to new airlines' entering markets. And without the signals provided by prices, the regulators are unable to make sound decisions about expanding airport and air traffic control facilities.

There is no precise price tag on all this. But Koran and Ogur estimate conservatively that passengers are paying tens of millions of dollars annually because of the slot-rationing system.

So airlines are unhappy with the present system to the extent that they want more slots than the FAA provides; passengers are paying through the nose; and three powerful federal agencies want reform. Yet a federal official told REASON that market allocation is being fought tenaciously by most of the Federal Aviation Administration. Under pressure from the OMB, a reluctant FAA has devised a draft proposal for market allocation at National Airport, and at this writing, the two agencies are currently negotiating changes in the draft prior to the proposal's formal publication.

The proposal's viability—and the short-term prospects for market reforms—will soon be clear. REASON will keep you posted.

THE SOUND MARKET

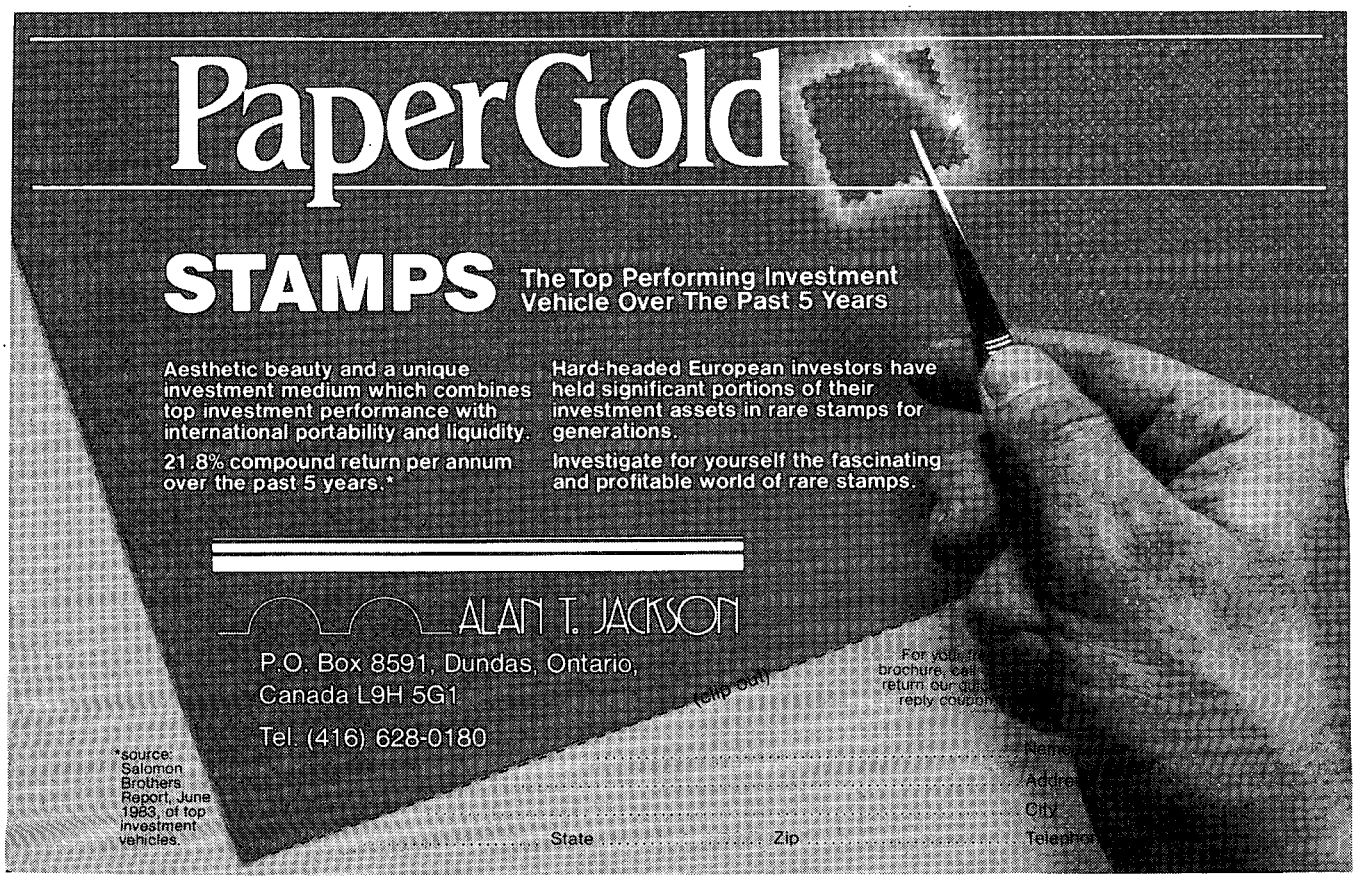
Oh, the wonders of the marketplace! Case in point: stereophonic sound for AM radio.

In 1982, the Federal Communications Commission (FCC) approved high-fidelity, stereo sound for AM—an advantage that FM radio had fully exploited to the great detriment of AM. But the commission declined to choose one of the four proven (but incompatible) systems as a federal standard, leaving any decision about a standard to the marketplace.

Broadcasters and radio manufacturers hesitated in going all out to adopt one of the competing systems, fearing that their choice would fail the ultimate test: consumer acceptance. Some thought that the FCC's demurral had allowed a great opportunity to pass; chaos in the market was predicted.

But here's what has actually happened: Two companies, Sony and Sansui, now make and sell radios that can receive any of the four AM stereo signals broadcast (about 150 AM stations now broadcast in stereo). And, *High Technology* magazine reports, a number of other manufacturers are developing multidecoding receivers as well. Where there's a need, there's a market.

Now a similar situation is developing with regard to stereo sound for television. The FCC recently approved stereo TV, after which the Electronics Industry Association urged the commission to designate a combination of two technologies—one by the firm DBX, the other by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Zenith—as the official standard. The commission, under deregulation-minded Chairman Mark Fowler, declined, so the trade group adopted the Zenith/DBX system as its standard, on a voluntary basis.

While the FCC's refusal to set a standard for stereo TV has many within the industry in jitters, not all insiders think the bureaucrats erred. One industry publication, *TV Technology*, recently editorialized on the situation, noting its parallel with the AM stereo issue. Citing the advent of the multidecoding AM radios, the publication remarked that "it is far from clear that the marketplace decision has hindered the long-term progress of AM stereo." The editorial wisely pointed out that "if it turns out that there are serious objections to the Zenith/DBX system it will be fortunate that the FCC didn't make it a federal standard."

PROFITABLE PEDAGOGY

The hypothesis that a thing done by government is a thing ill done may not have the status of scientific truth. But the point certainly is not lost on an emerging group of entrepreneurs who are looking for profit opportunities in education.

Education Week recently reported that International Telegraph and Telephone, Bell and Howell, and the Encyclopedia Britannica Educational Corp.—all three of which operate for-profit postsecondary educational programs—may get into the operation of private elementary and secondary schools. The rising concern over the quality of education in the public schools has sparked the firms' interest in the possibility of providing such education at a profit.

Another firm, Educational Corp. of America, plans to open two for-profit elementary schools in Chicago this fall and another 2 to 10 schools a year thereafter. Tuition at the schools, each of which will accommodate 350 students, will range from $1,000 to $6,000. Behind the venture are Dennis Keller and Ronald Taylor—who run the Keller Graduate School of Management in Chicago at an annual profit of $300,000—and Richard Rosett, former dean of the University of Chicago Graduate School of Business.

Already, there is a trade association for operators of for-profit schools. Founded last year by Charles Lavaroni, owner of the for-profit Kittredge School (95 students in grades 1-8) in San Francisco, the National Independent Private Schools Association has 50 members in 7 states. According to Lavaroni, about 1 percent of the nation's elementary and secondary schools are run for profit.

And if there's to be for-profit grade schools and high schools, why not franchised remedial learning centers, as well? That's exactly what Sylvan Learning Centers are, and, according to *Venture* magazine, 100 of the franchises have been sold to investors in 48 cities. The centers specialize in remedial reading and math. Copartners Gene Williams, former president of the educational and reference publisher Americana Corp., and former schoolteacher Barry Fowler expect their franchise firm to earn gross revenues of $4 million this year. Williams and Fowler plan to license 600 of the franchises during the next three years and hope eventually to see 1,400 to 1,700 of the centers in operation.

And a California firm has found another way to get the private sector involved in primary and secondary education—and makes a profit doing it. Enterprise for Education (EFE), based in Santa Monica, wanted to supply high-quality

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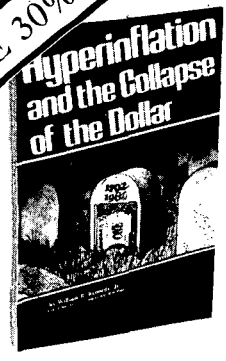

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Privatization of primary and secondary education is not likely to blossom forth overnight. But it does look as if the seeds are now being sown.

PRIVATIZATION BEGINS AT HOMES

Since it began 14 years ago, the market for mortgage-backed securities has been dominated by government-related agencies. Now it looks like that market may be on the way to quiet but dramatic privatization.

The idea behind public trading of mortgage-backed securities is sensible. Once upon a time, banks and other lending institutions offered mortgages to home buyers and then kept them in their portfolios until they were paid off. But then came persistent inflation, and lenders were stuck with long-term mortgages at interest rates far lower than their cost of new funds. Understandably, institutions have wanted to reduce the number of mortgages in their portfolios to reduce their risk of losses. This they accomplish by selling the mortgages to institutions that in turn issue publicly traded securities based on a number of mortgages pooled together.

This practice has become so common that, according to a recent article by Ronald Brownstein in *National Journal*, mortgage originators sold 70 percent of their loans in the first half of 1983, compared to some 20 percent a decade ago. The practice, noted Brownstein, "has become an integral part of the housing finance system."

However, it is a part where private entrepreneurship has been minimal. Three quasi-governmental entities—the Government National Mortgage Association (Ginnie Mae), which guarantees securities backed by federally insured mortgages; and the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac), which buy mortgages and issue securities—have dominated the market. Altogether, these agencies have issued more than $280 billion worth of mortgage-backed securities since 1970, when Ginnie Mae first launched the market. By contrast, private firms only recently entered the mortgage-backed securities market, and several are now gearing up to sell several billion dollars' worth of such securities a year. Private firms have generally purchased only mortgages above $114,000, which government agencies cannot buy. Moreover, they have confronted an array of securities laws to which their government-sponsored competitors aren't subject.

But change is in the air. Brownstein reported that the Reagan administration has established twin goals of making mortgage-backed securities more attractive to pension funds, life insurance companies, and other institutional investors and reducing Fannie Mae and Freddie Mac's role in what could mushroom to a

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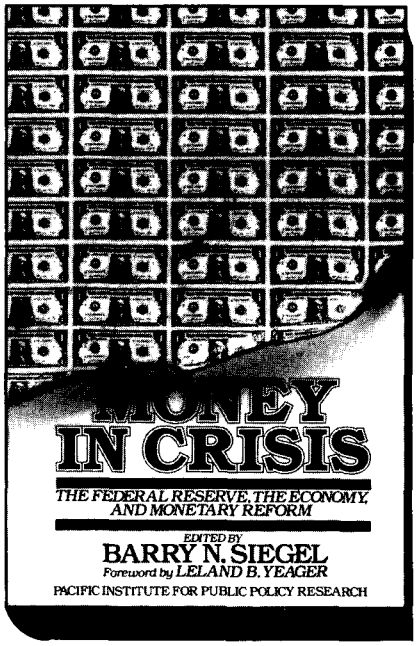
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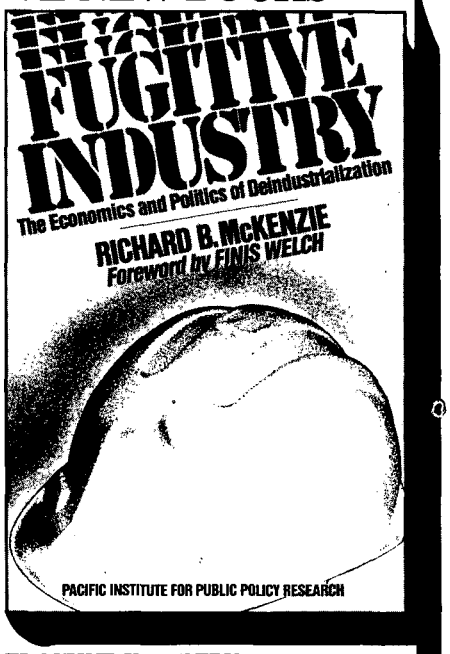
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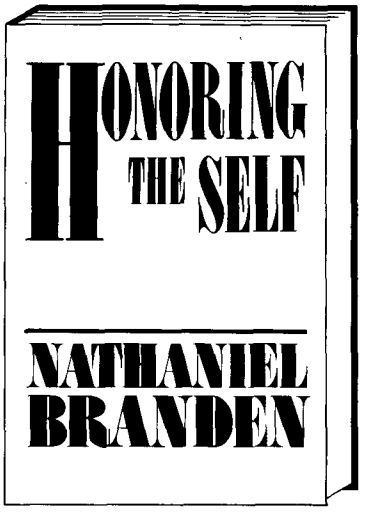

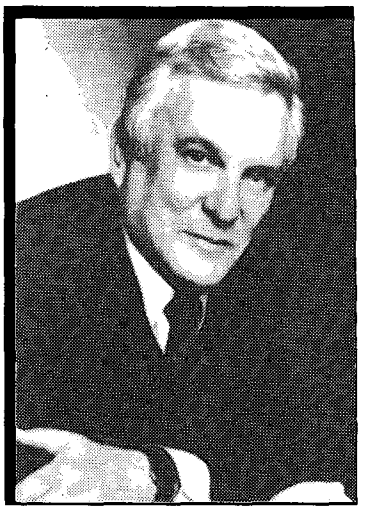

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$200-billion-a-year market. The administration is pushing two major pieces of legislation to accomplish this.

One bill would preempt existing state laws that now prohibit pensions or insurance companies from investing in mortgage-backed securities and would broaden existing exemptions from the securities laws for sales of these securities. This bill passed the Senate last November and is now being considered in the House.

The administration has also proposed changing the tax laws to give securities issuers more flexibility in managing their mortgage pools without adverse tax consequences. This would be accomplished with a new entity called Trusts for Investments in Mortgages (TIMs) that would effectively function as mutual funds for mortgages.

The path to privatization has its perils. Key House members are reputed to be skeptical of the legislation. And powerful housing lobbies in Washington insist that any TIMs legislation should give government agencies the authority to set up TIMs just as private firms could. The lobbies favor the government agencies because the agencies are well established and the market has confidence in them, a National Council of Savings Institutions official told the *National Journal.* But private participants in the market worry that the agencies would thus be able to maintain a near-monopoly on the market.

If these potential problems can be overcome, another major portion of the economy may be shifted from government to the private sector, providing greater incentives for lending to home owners.

TICKETS TO HEAVENS

Want to buy a space shuttle—for $2 billion? Cyprus Corp. does. Headed by Willard Rockwell, Jr.—former chief executive of shuttle-builder Rockwell International Corp.—Cyprus is discussing with NASA the purchase of a shuttle orbiter. The corporation wants to use it to launch communications satellites. (An earlier such proposal, by Space Enterprises, Inc., was withdrawn last year.)

Rockwell believes that NASA's fleet of three shuttles (with a fourth to be added later this year) won't be able to satisfy the demand for satellite launches. And though the $2-billion price tag is hefty, Rockwell said that "the financing doesn't scare me."

If the purchase goes through, it would mark a major step in private-sector involvement in space. But even the fact that a corporation of Cyprus's size is seriously considering such a deal is significant, indicating that the launch business may be poised to attract large private capital, in spite of predictions that it never would.

Another way that large sums of private capital might be directed toward the space business is a surprisingly simple one: a lottery. The lottery idea was recently discussed in an exchange of letters published in *Aviation Week.* Richard Kirka proposed that NASA raffle off tickets for free rides on the shuttle, selling them for $5 per chance. The space agency's income from such a lottery, Kirka suggested, would be enough "every year to pay for a major project like the space station without hitting the taxpayer for more money." Kirka estimated that there may be 20 to 30 million space enthusiasts who would gladly part with $5 for a chance to ride on the shuttle—yielding $100-$150 million a year.

Then Alan Stern wrote in to *Aviation Week* about a similar lottery idea that he and several other students at the University of Texas formulated some years ago, an idea that goes Kirka's one better. The group "envisioned a private corporation conducting such a venture." Using a 60-passenger module placed in a shuttle's cargo bay, a firm could sell more than 200 million tickets, at $1 each, for all 60 places, the group estimated. (To attract speculative investors, winning tickets would be auctionable.) In addition to that income would be proceeds from the sale of book, TV, and movie rights to the story.

It's doubtful that NASA would go for the lottery idea, but are you listening, Willard Rockwell?

A BOONDOGGLE THAT'S ALL WET

For years, free-market economists have pointed out that government subsidies to Western water users have been a dis-

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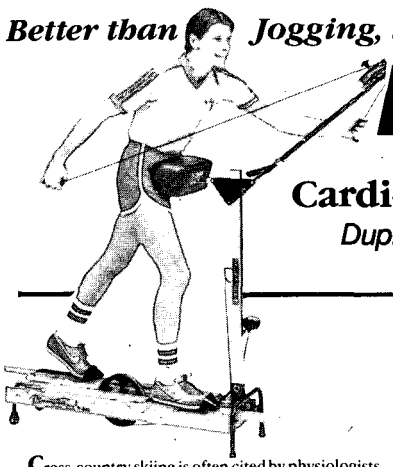

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aster resulting in wasteful depletion of water resources. They've made the case over and over for market pricing of water, and now there are signs that their case is gaining respectability.

One important indication was a favorable article, "Should Water Subsidies Go Down the Drain?" published in *Business Week* in early March. It quoted a Congressional Budget Office estimate that users of water from existing federal water projects pay a mere 19 percent of the total cost of the water, with taxpayers footing the rest of the bill—estimated at more than $600 million this year alone.

According to the article, the consequences of this boondoggle are horrendous, including enormous distortions of agricultural markets. For example, avocado production has skyrocketed recently and avocado prices have gone down. So the market doesn't particularly need more avocados. Yet the Reagan administration has proposed a new water project—the Santa Margarita irrigation project, with a $229-million price tag—to provide more water for avocado farmers.

Another negative consequence of the subsidies is that farmers have little incentive to conserve water that's been made artificially cheap. As a result, water is squandered, and water shortages become a real threat. Economists Bruce R. Beattie of Montana State University and Henry S. Foster of the Agriculture Department estimate that consumption of water could be cut 12.6 percent in some places with even a modest increase of 10 percent in the price of water. And Delworth Gardner of the University of California believes that a price increase of 10 percent would reduce water usage by as much as *20 percent* for some California crops.

Gardner and others suggest that "on existing projects, the price [of water] should be what the markets are willing to pay." But politics makes this possibility remote, at best. Indeed, *Business Week* reports that the Reagan administration recently proposed a whopping $700 million worth of new government-funded water projects.

Is there any politically feasible alternative to the water scam? One possibility is to permit the current beneficiaries of the system to sell their water rights. As *Business Week* notes, "If, for example, a power plant can buy existing water rather than go out and tap the water table or force the creation of another costly dam, everyone benefits: the current user, the power plant, and the economy as a whole." But the sale of water is currently hampered by various state and federal laws.

Despite the restrictions on such sales, they are beginning to happen more frequently. In Utah, owners of irrigation-water rights have sold some of their rights to an electric utility. And a creative barter is being discussed in California, in which the Metropolitan Water District of Los Angeles would upgrade the irrigation systems of the Imperial Irrigation District. In exchange, the Metropolitan Water District would receive all the water that was being saved.

These schemes of "buying off" the current holders of water rights are not an ideal solution. "The users who now get water cheaply [that is, subsidized water] would reap a windfall," *Business Week* notes. And Kenneth D. Frederick of Resources for the Future voices the objections of many when he says that "people shouldn't be able to make a profit on what the government has given them." But as *Business Week* says, "More and more economists are looking forward to the market as an answer," and this "buying off" may be the only viable path to a more realistic market in water.

At least and at last the issue is being seriously discussed.

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CABLE COMPETING BY MANY OTHER NAMES SPELLS THE SAME

Cable TV systems are facing a growing number of alternatives that threaten to topple the edifice of local government regulation.

A cornerstone of the regulatory system is the contention that cable is a natural monopoly and therefore no place for the draining competition of free markets. But a recent Cato Institute study by attorney Clint Bolick takes issue with the natural-monopoly thesis. In a town where a single cable company provides good service at economical prices, it's true that no other company would be likely to try to compete, notes Bolick. But in fact, there is a growing number of places where two cable companies are competing—the Lehigh Valley of Pennsylvania; the Maine village of Presque Isle; Slidell, Louisiana; and Phoenix, Arizona (a case covered by Tom Hazlett in REASON's July 1982 issue).

Does a competitive market in cable

mean higher prices for consumers than under a regulated monopoly? Probably not. Bolick cites a study which found that subscribers pay an 18 percent penalty when there is head-to-head competition on the same street between cable services. But another study found that *22 percent* of cable costs in franchised-monopoly cities is "directly attributable to local regulations." So it looks as if the extra costs from "duplication" of service are not avoided and are in fact exceeded by imposing a monopoly!

Of course, competition in cable has been severely limited in most places. But competition for the cable viewer is coming anyway in a wide array of new technologies. One is multichannel multipoint distribution services (MMDS), which broadcast television channels over microwave frequencies. The *National Journal* reports that more than 100 one-channel MDS systems are now on the air, and the FCC is sorting through some 16,500 applications for the right to broadcast over four-channel MMDS.

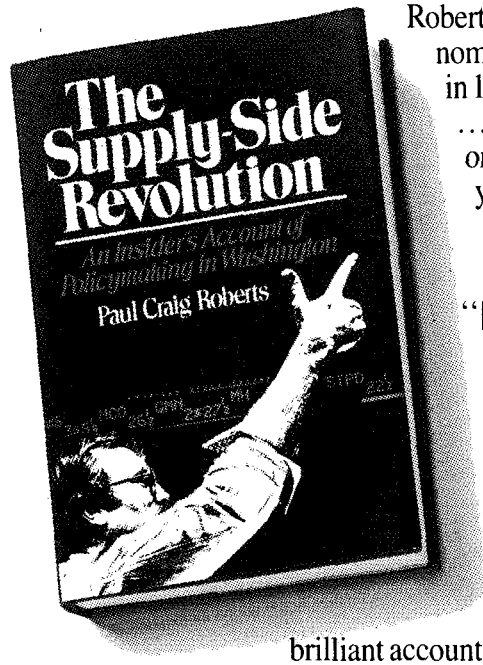
A second competing technology is direct broadcast satellites (DBS). One such system is already operating. While technology now exists to broadcast three television signals via DBS (they are received by rooftop dishes), a 32-channel satellite will soon be available.

Yet another technology is satellite master antenna television (SMATV), which Bolick describes as "cable television using wires that do not cross public property." Among its advantages over cable is that the FCC has forbidden local governments to regulate SMATV.

An example of SMATV's potential is in Dallas where, according to the *National Journal*, landlords of large apartment complexes bypass the cable monopoly by putting up rooftop-mounted dishes to receive satellite signals and then charge their tenants who receive the service. The result of this is that Warner-Amex Cable, the cable franchisee for Dallas, has been able to penetrate only about 25 percent of the Dallas market, less than half of the industry's national average.

The *National Journal* reports that SMATV now has fewer than 400,000 subscribers nationally, about one percent of cable viewers, but "their potential for growth is enormous." An executive with a Chicago SMATV company says, "We look at ourselves as being in the private cable business. . . . The difference is that we're free from the shackles of regulation and from the problems of the political arena, which are detrimental to any business."

"A timely masterpiece*..."



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Some observers, such as Washington telecommunications attorney Philip Verveer, suggest that the significant competition with cable in the future will be elsewhere. "I'm inclined to believe the possibility for a huge competitive battle is more likely to involve cable and the telephone companies than the other competitors," he told the *Journal*. He believes that it's only a matter of time—perhaps 20 years—before telephone companies will have the technology for the same video services as cable now offers.

So it looks as though competition is here to stay in the cable market despite the widespread propensity to regulate cable itself as a natural monopoly. And cable companies may soon find themselves left behind in the race to serve TV viewers—unless they trade in their exclusive franchises for the opportunities of the free market.

DRIVING TO MARKET

Deregulation never promises anyone a rose garden. Any change in the status quo is bound to bring in its wake a set of problems that didn't exist before. But a recent study by Richard Zerbe, a University of Washington professor and consulting economist to the Federal Trade Commission, shows how in one instance—the deregulation of taxicabs in Seattle—the benefits were large, the problems were relatively minor, and they were solved without a knee-jerk return to regulation.

In a recent article in *Regulation* magazine, Zerbe described the extensive regulatory scheme in effect in Seattle for nearly 50 years. The city fathers passed an ordinance in 1930 that established cab fares as well as a ceiling on the number of cabs permitted in the city (a number left unchanged for about 40 years).

In the 1970s, the regulatory arrangement grew creaky and unwieldy. City council members and taxi operators were at odds when the operators applied to the city for fare increases. In this climate of dissatisfaction with the status quo, in 1979 Councilman Randy Revelle was able to shepherd taxi decontrol through the council and win decontrol from the county and port authorities, as well.

What were the results? By and large, very positive. The number of city-licensed cabs rose from 421 to 511, and employment levels rose accordingly. The response time—the length of time it takes for cabs to respond to a call—has reportedly declined considerably. And although it is hard to ascertain deregulation's effect on fares (because of other factors involved), Zerbe calculates that fares on an average taxi trip would have been about 11 percent higher if price regulation had continued.

Deregulation has not been without some snags, however. Prior to deregulation, the King Street Amtrak station had awarded all taxi business at the station to a single company. But with deregulation, independent and cab-fleet taxis flocked to the train station, where they clogged traffic and sometimes clashed with each other in their competition for customers. There were other problems at the Seattle-Tacoma airport, where there were disparities among fares charged by different cabs, and some drivers were refusing to take short-haul customers.

As city council members began to hear complaints about these problems, some called for full reregulation of cabs. They were stopped cold in their tracks when city attorneys pointed out that the Supreme Court's famed *Boulder* decision of 1982 might expose the city to liability for antitrust violations if it reimposed controls.

In the end, the council and other authorities opted for far milder changes. The council required cabbies to post their fares on the outside of their vehicles (which, according to Zerbe, the cabbies might well have done anyway). Amtrak resumed the practice of franchising cabs at the train station, which a sensibly run business might very well have done. And the airport authority, after some false starts, adopted a maximum-rate scheme and established a special line of cabs willing to serve short-haul customers—also solutions that a business eager to please its customers might well have adopted.

Zerbe himself is not a partisan of either regulation or deregulation. Yet the evidence he provides indicates overwhelmingly that deregulation has been a positive thing for the Seattle taxi industry, and especially for its customers, and that the problems that can arise with deregulation can be solved without the stultifying hands of government regulators.

MILESTONES

• *Vice views.* Americans don't think victimless "vices"—such as drug use, gambling, or statutory rape—are very serious. That was the finding of a survey of more than 60,000 people conducted by Wharton School's Center for Studies in Criminology. Respondents, asked to rate the seriousness of 204 crimes, put violent crimes at the top, victimless at the bottom.

• *Survival of the fittest.* The Texas Board of Education has repealed a rule enacted at the behest of "scientific creationists" requiring that evolution be taught as "only one of several explanations of the origins of mankind." Because Texas schoolchildren are about 10 percent of the national textbook market and publishers tailor their textbooks accordingly, the victory for science is actually national in scope.

• *First priorities.* Philip Kurland of the University of Chicago, one of the nation's most distinguished legal scholars, has coauthored a book arguing that the First Amendment should apply to cable television. "[Cable] is a different technology," note Kurland and two Washington lawyers, "but it speaks the same way that the other media of communications do, through words and pictures."

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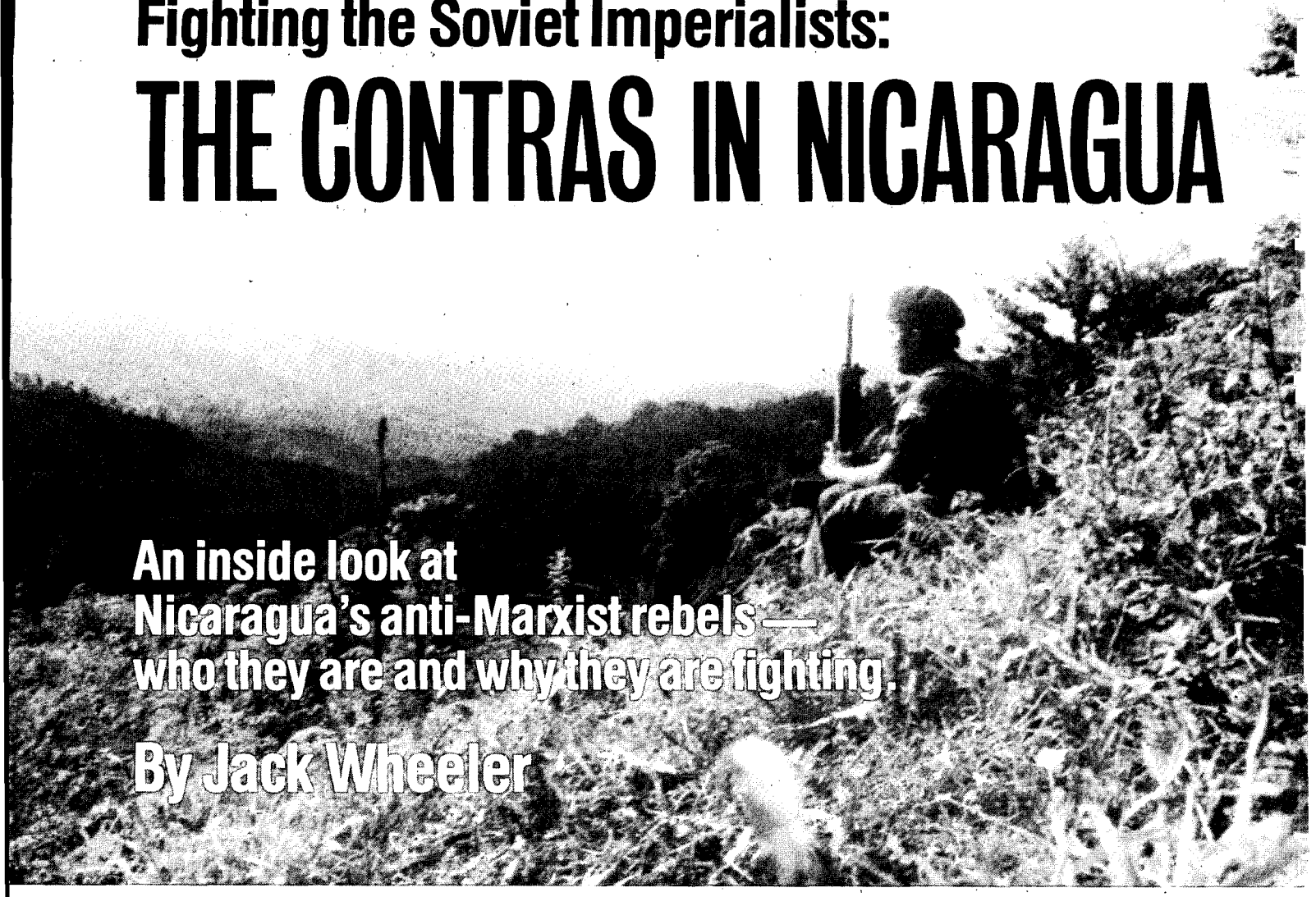


An inside look at Nicaragua's anti-Marxist rebels — who they are and why they are fighting.

By Jack Wheeler

Ordinarily, I like being in jungles. I've spent time in many of them, from the Amazon in Ecuador to the Sepik in New Guinea, the Ituri in Africa, and the Montagnard Highlands of South Vietnam. But this time, it was different.

It was the summer of 1983, and I was clandestinely crossing the border from Honduras into Nicaragua with a patrol of 90 FDN (Nicaraguan Democratic Force) guerrillas. The FDN is one of several rebel groups—collectively known as the "Contras"—who are trying to overthrow the Marxist Sandinista government of Nicaragua, which is backed by Cuba and the Soviet Union. My month-long sojourn with the Contras marked the beginning of a multicontinent investigation of Third World anti-Soviet guerrilla movements that took me from Central America to Afghanistan and Africa.

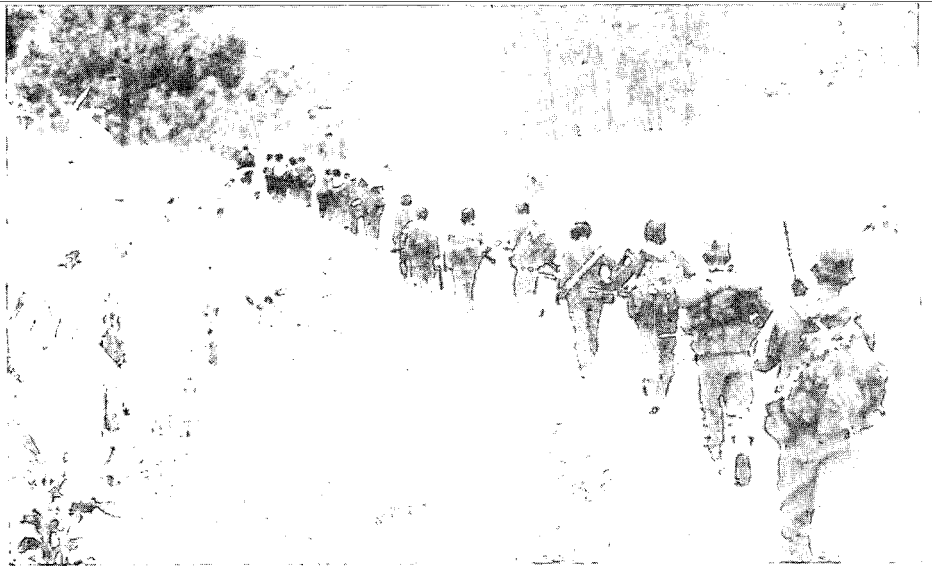
My special high-tech boots of which I was so proud were no match for the mud of the Central American rain forest, nor for the Contras' mode of travel: straight up the side of one forested mountain, straight down the other, avoiding anything remotely resembling a trail or path, over and over and over—and over—again. It had started to rain, but my clothes were so thoroughly drenched with sweat that it made no difference. I had forgotten what it was like not to be thirsty. Even though I kept filling my water bottle at every opportunity and lacing it with a powdered electrolyte replacement, I was far more dehydrated than I had ever been in, say, Timbuktu in the Sahara Desert.

For guerrillas, the Contras I was with were well equipped: Belgian FAL automatic rifles; "Thumper" grenade launchers; LAW rockets (made famous by Clint Eastwood's "Dirty Harry" Callaghan in the movie *The Enforcer*); a few Soviet RPG-7 grenade launchers, AK-47 Kalashnikov rifles, and AK-47 ammunition in boxes with Arabic lettering (captured PLO stuff very likely provided by the Israelis, though the Israeli government denies this); flashlights, walkie-talkies, good fighting knives, web harness gear, canteens, new blue-green uniforms, and US Army ankle-length jungle boots with deep-lugged soles—all the latter from the US Central Intelligence Agency (CIA).

During a rest break, I tried on a couple of spare pairs of these jungle boots the fellows had with them, but they were too small. Finally, a large, fair-skinned Contra whose code name was "Yankee" took off his own and insisted that I try them on. They fit. Somehow, Yankee squeezed into another pair, and off we went again. Now I wouldn't be holding everyone up by continually swan-diving into the slippery mud. I was even able to catch up with Charley.

Charley was point man for the patrol. I'll never forget my first sight of him as he emerged from the jungle, built like a black Baryshnikov, sporting a Belgian FAL rifle and a Soviet RPG-7. If all the

PHOTOGRAPHS BY JACK WHEELER



Left: The Contras' mode of travel: straight uphill and down, avoiding all trails. Above: A detachment of Contras prepares for a reconnoitering mission.

The New Anticolonialism

It is perhaps not surprising that, in the struggle to throw off Western colonialism, so many of the Third World's "national liberation movements" have embraced the anticapitalist, anti-Western ideology of Marxist-Leninist socialism. And they often have had the backing—military, economic, and rhetorical—of the Soviet Union.

Today, however, this association is rapidly becoming a relic of the past. What is emerging might be called "the second stage" of post-World War II anticolonialism.

To investigate this new phenomenon of anti-Soviet liberation movements, I went to southwestern Asia, Africa, and Central America, going clandestinely into freedom fighters' territory. Each case was different, but I found a growing rejection of Soviet imperialism throughout the Third World.

There are wars of liberation in eight parts of the Soviet Empire right now—in Nicaragua, Angola, Ethiopia, Mozambique, Afghanistan, Laos, Cambodia, and Vietnam. The emergence of these anti-Soviet armed insurgencies points to the end of Soviet expansionism and the start of its contraction. More and more of the Third World is realizing that Soviet Marxism is a one-way ticket to oppression and poverty. The Soviet Empire may, at last, be on the verge of breaking up.

—J. W.

Contras are like this, I thought, the Sandinistas are in real trouble.

Charley Fitzeral is 22, a Creole (black) whose family moved from Bluefields, in eastern Nicaragua, to the capital, Managua, when Charley was a young boy. Charley's grandfather was a black American businessman who met a lady from Corn Island, off Nicaragua's Caribbean coast, while on vacation. They ended up settling down in Bluefields.

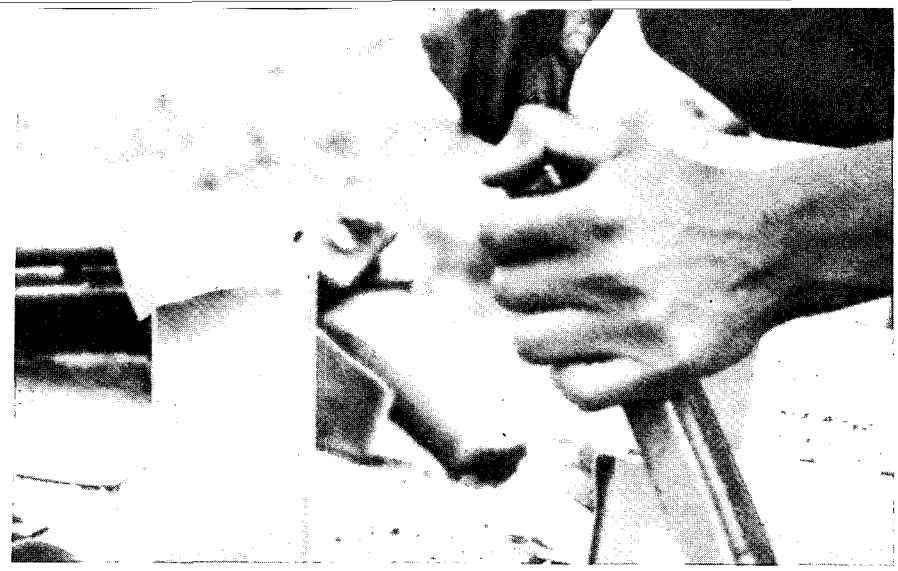
Charley's father is a diesel mechanic who made the mistake of telling his neighbors and friends that he thought the Sandinistas didn't really believe in democracy and their promise for elections was a lie. For this, Charley told me, his father was accused of being a reactionary counterrevolutionary, arrested three times, beat up very severely, and had his fingernails ripped off in a prison torture cell. His father's brother, Charley's uncle, was also arrested and disappeared. So in December 1981, Charley decided to join the FDN.

At the time, Charley was majoring in engineering at UNAN (National Autonomous University of Nicaragua), in Managua. But Charley was a little more than just another college student—in 1976, he was a member of the Nicaraguan Olympic Team in the Montreal Olympic Games. Charley dreams of the day when the war will be over, when he can return to athletics and continue his education in engineering and telecommunications. But in the meantime, one of Nicaragua's most famous athletes is fighting with the Contras.

Charley and I became friends almost immediately. I told him he looked much like the great rock star Chuck Berry, and he flashed a brilliant white smile. We talked of his being in the Olympics and why he was with the anti-Sandinista guerrillas. "I was so proud to represent my country in the Olympic Games, and in many other international competitions as well," he said to me, with tears welling up in his eyes. "I want so much to be proud of my country. So I must fight to put an end to this nightmare the *piricuacos* [what the Contras call the Sandinistas: Spanish for "rabid dogs"] are making my people suffer, fight for a free and democratic Nicaragua."

When he was dictator of Nicaragua from 1963 until the Sandinista takeover in 1979, Anastasio Somoza Debayle defended his regime by accusing anyone who opposed him of being a communist. Nicaragua's current rulers have adapted this technique, denouncing all those who object to their rule as "Somocistas"—reactionary counterrevolutionaries who want to drag Nicaragua back to the evil days of Somoza. Thus the nickname *Contras* for the FDN guerrillas: from "contrarevolucionarios," Spanish for *counterrevolutionaries.* As I came to know Charley and dozens of his fellow compatriots, I discovered how the Sandinistas' accusation is as absurd as was Somoza's.

Nicaragua lies athwart Central America, between Honduras on the north and Costa Rica on the south, the Pacific Ocean at its west coast, the Caribbean on the east. At a little over 50,000 square



Top right: Arabic writing on these ammunition packages suggests that they are captured PLO matériel, provided by Israel, although the Israeli government denies this. Top left: A *campesina* woman guards her home and children while her husband fights with the Contras. Above: Too old for combat duty, this Contra helps with cooking and other camp chores.

miles—about the size of Alabama or Greece—it is Central America's largest country. But, possessing a population of only some 2.5 million, it is also the region's most sparsely populated country (with a population density about that of Iowa's)—and, as tens of thousands of refugees have fled the country, today it is even more so. A little more than two-thirds of Nicaragua's citizens are mestizos—of mixed Spanish and native Indian lineage. About a fifth of the country's people are white; another tenth are black; and the remaining 5 percent are indigenous Indians.

During the first 20 years of Nicaragua's independence from Spain in 1821, a parade of 18 presidents followed each other in coup and countercoup. Its Spanish political heritage militated against the adoption of North American democratic ideals. Instead, coup d'état, intrigue, and revolution have been the norm, one *caudillo* strongman replacing another, all within the context of a continuous Mafia-style clan warfare between the Liberal party, based in the city of Granada, and the Conservative party, centered in León. Managua, the capital, is neutrally located between the two.

Like street gangs in the Bronx, the struggle between the two parties had more to do with the control of "turf" and political spoils than with ideals or ideology. Neither the Indians in the jungles of the north, such as the Miskitos, nor the Creole blacks of the east coast ever were considered in the rivalry or the country's development. Nicaragua's history, in the words of one observer, can be summarized as "an elitist competition between urban-based factions of mestizo [Spanish-Indian blood] clans."

Possibly the worst of the *caudillos* of either party to rule Nicaragua was the Liberal dictator José Santa Zelaya, who came to power in 1893. In 1909, a revolution against him started up in Bluefields, to which a contingent of US Marines was dispatched, ostensibly to protect the small American community living there. The Zelaya regime collapsed, and the US government responded to the ensuing political chaos, anarchy, and violence by maintaining an American military presence (primarily a Legation Guard of 100 Marines) on and off until 1933.

Historian J. Tierney has written of US policy toward Nicaragua during this period:

> *U.S. officials grew firm in their belief that only a true democracy, with free elections, could produce a permanent political stability. This produced an inherent political contradiction in U.S. policy. Thus, the U.S. began demanding both stability and democracy in Nicaragua, political goals which had been mutually exclusive throughout the country's history. Eventually, one would have to go.*

(Journalist Walter Lippmann, however, saw the situation in different terms. To Lippman, America's involvement in Nicaragua was nothing but dollar diplomacy, with Nicaragua an "American protectorate." As Ronald Steel reports in his book *Walter Lippmann and the American Century*, Lippmann wrote, in response to President Coolidge's dispatch of Marines to Nicaragua in 1927, that the Central American nation was "not an independent republic, that its government is the creature of the State Department, that management of its finances and the direction of its domestic and foreign affairs are determined not in Nicaragua but in Wall Street.")

When a civil war (again, a result of Liberal-Conservative rivalry) precipitated the American military intervention in 1927, the 31-year-old son of a plantation owner from Nicaragua's Masaya province who had been radicalized in Mexico by syndicalist and communist organizations—and who had already started to fight the US-supported government of

Adolfo Díaz—decided his purpose in life was to raise a guerrilla army and fight the Americanos. His name was Augusto César Sandino, and one of his battle cries was *Mueran los Yanquis*: "Death to the Yankees."

Using Honduras as a sanctuary, as the Contras do today, Sandino waged a classic guerrilla war in Nicaragua's northern jungles—as well as a shrewd public-relations campaign throughout the West and Latin America. Sandino sought to have himself portrayed as a romantic Robin Hood–style folk hero, a benevolent and impassioned patriot struggling to rid his beloved country of the tyranny of corrupt autocrats and Yankee imperialism.

Much of the American media bought this portrayal of Sandino. And by 1928, spurred by reports from the press, all manner of academic, church, and other groups started springing up across the United States to protest the presence of US Marines in Nicaragua.

In contrast to his respected image abroad, Sandino's behavior at home was another story. Against those of his fellow citizens who had the temerity to oppose him, Sandino practiced a particularly grisly terrorism. Most of Sandino's letters and circulars containing his orders for action and punishment decrees ended with the dreaded phrase *Que sea pasado por las armas*: "Execute him."

Death by machete was the official form of Sandinista execution. Sandino's favorites were the *corte de cumbo*, in which the victim's head is split in half by the machete slicing straight down on top of his skull to the base of his brain, and the *corte de chaleco* (the "waist-coat cut")—two slashes cut the victim's arms off and a third disembowels him. "Freedom is not won with flowers," Sandino was fond of saying; "that is why we have had to resort to the *cortes*."

By the early '30s, American public sentiment against US military involvement in Nicaragua was high. Under the direction of President Hoover—who was generally skittish about US military intervention abroad—the Marines began pulling out of Nicaragua while simultaneously training a National Guard (*Guardia Nacional*) to fight the original Sandinistas. Elections were held in Nicaragua in 1928 and 1932 (although violently opposed by Sandino, who protested the US Marines' supervision of the vote), and the elected president, Juan Sacasa, appointed Anastasio Somoza Garcia as *jefe director* of the *Guardia*.

With the Marines gone by 1933, President Sacasa invited both Somoza and Sandino to a peace conference in Managua. On the evening of the scheduled conference, February 21, 1934, while being driven from the presidential palace to downtown Managua, Sandino's car was stopped at a *Guardia* roadblock. Sandino and two companions were pulled from the car and shot. By 1936, Somoza had control of the government—the Somoza Dynasty had begun.

Although Nicaragua prospered fairly well under the rule of Anastasio I (assassinated by a young Nicaraguan poet in 1956) and his sons Luis (retired from the presidency in 1963) and Anastasio Debayle, the Somozas ruled in the grand *caudillo* style, amassing enormous personal wealth. With a public stance of running one of the most anti-Communist governments in the world, Anastasio II attracted millions in US military aid—and the hatred of Fidel Castro.

In Cuba in 1961, Castro began sponsoring with money, indoctrination, and military training a group of Nicaraguan insurgents led by Carlos Fonseca and Tomás Borge. Claiming Augusto Sandino as their inspiration, they called themselves the Sandinista National Liberation Front (FSLN). Starting in 1963 from a base near Matagalpa in north-central Nicaragua, the FSLN tried for over a decade without much success to foment a peasant rebellion by raiding mining camps and outpost towns. In 1976, Carlos Fonseca was killed in action by Somoza's *Guardia*, and the Marxist insurgency seemed finished.

But by 1977, a torrent of international criticism was raining down upon Anastasio II. Newspaper columnist Jack Anderson called him "the world's greediest ruler." Amnesty International condemned the "human rights" abuses of his *Guardia*. Nicaragua's middle class had become increasingly resentful of the regime's corruption: Managua's police force, for example, was surely one of the world's only that drove new Mercedes Benzes—Somoza, of course, owned the Mercedes dealership. The Roman Catholic Church grew more stridently opposed to the autocratic methods of the *Guardia*. In the United States, the Carter administration targeted Nicaragua as one example of its human-rights policy by cutting off military aid and assistance.

In July 1977, Somoza had a heart attack; both his health and his personal life deteriorated. And when long-time opponent of the Somozas and editor of *La Prensa* newspaper Pedro Chamorro was killed by an unknown gunman in early 1978, the torrent of international criticism turned into a flood.

Hundreds of tons of Soviet-supplied military equipment were smuggled to the FSLN from Mexico, Venezuela, Panama, Costa Rica, and Cuba. Hundreds of PLO guerrillas, Cubans, and East Germans joined the FSLN using Costa Rica as a sanctuary. Business leaders, labor unions, and antigovernment political parties formed a non-Marxist "Broad Opposition Front."

As a full-scale civil war broke out by the end of 1978, the Carter administration got the International Monetary Fund

to block emergency funds for Nicaragua and pressured countries such as Israel and Belgium into stopping military aid, while the United States did the same. Secretary of State Cyrus Vance wrote to Somoza, demanding that he leave the country, after which the US government would recognize a transitional government of the FSLN and the Broad Opposition Front, prior to elections. Somoza flew to Miami on July 17, 1979 (he was assassinated by Sandinista agents in Asunción, Paraguay, in September 1980), and the FSLN marched victoriously into Managua two days later. Tomás Borge, one of the original FSLN founders, became chief of the police.

While publicly promising elections and genuine democracy, the Sandinistas quickly erected what approaches a totalitarian police state. Within little more than a month of taking power, FSLN leaders were in Moscow signing an official accord with the Soviet Communist Party. The Nicaraguan people celebrated deliriously when Somoza was overthrown. The phrase *Habia llegado un nuevo amanecer*—"the days of happiness have arrived"—was on everyone's lips. But the tears of joy turned to tears of suffering all too quickly, and for many they were perhaps worse than anything the Nicaraguan people had ever shed under Somoza.

The government was now led by a five-member junta and a nine-member directorate, both headed by Sandinista Commander Daniel Ortega. By 1980, Violetta Chamorro, widow of the *La Prensa* editor who had been calling for democracy and a mixed economy for Nicaragua, resigned from the junta to help form the rebel group FDN. At the same time, Alfonso Robelo, a prominent businessman who had formed the Nicaraguan Democratic Movement (MDN) to oppose Somoza, also resigned from the junta to later help form ARDE, the Democratic Revolutionary Alliance, an anti-Sandinista resistance movement based in Costa Rica. Arturo Cruz, head of the Central Bank of Nicaragua, joined the junta to replace Violetta and Robelo; but in 1981, as Nicaragua's ambassador to the United States, he defected to the United States, where he now lives.

In 1981, the Sandinistas' ambassador to the United Nations, Jaime Pasquier, resigned and sought asylum in the United States. "What exists in Nicaragua," he reported, "is a complete dictatorship." In August 1981, Sandinista defense minister Humberto Ortega (brother of Daniel) in a public speech, declared:

Without Sandinism we cannot be Marxist-Leninist, and Sandinism without Marxism-Leninism cannot be revolutionary. That is why they are indissolubly united, and that is why our doctrine is Marxism-Leninism.

By the fall of 1981, Edén Pastora, the famous Sandinista guerrilla hero known as Commander Zero and vice minister of defense and chief of the militia, resigned and left the country, later to join Robelo and head the military arm of ARDE.

In the first two years of Sandinista rule, former junta member Arturo Cruz has reported in the journal *Foreign Affairs*, more than 200,000 Nicaraguans fled the country as refugees, including some 20,000 of the country's 170,000 Miskito Indians. In March 1982, *Time* magazine reported that 42 Miskito villages along the Río Coco had been firebombed, 49 churches destroyed, 35 villagers from Leimus were buried alive by Sandinista soldiers, and thousands of Indians were imprisoned or had disappeared at the hands of security forces—all for resisting the restructuring of their society on Sandinista-Marxist lines.

The human-rights monitoring organization Americas Watch has pointed to the government's treatment of the Miskitos as the "most unfortunate decline in human rights in Nicaragua [since the Sandinista takeover in 1979], and that which may prove the most enduring." The organization has detailed the Sandinistas' systematic abuse of the Miskitos, citing in particular the government's forcible relocation and confinement of the Indians in guarded settlement camps. The Sandinistas have extensively confiscated Miskito land, without offering the Indians compensation, the organization has charged. Moreover, Americas Watch has "received credible accounts" of harsh physical abuse of many of the hundreds of Miskitos detained in state prisons on charges of counterrevolutionary activities.

On March 15, 1982, the Sandinistas declared a "state of emergency" and suspended several rights, including *habeas corpus*. The *Wall Street Journal* commented:

Nicaragua, like Poland, has finally made it official: It has declared itself a police state. . . . There is, of course, no surprise in any of this. It follows the classic pattern of Marxist revolutionaries everywhere. First destabilize the society, then masquerade as social democrats while seizing power with armed force, then declare that emergency conditions make it necessary to 'mobilize' society, i.e., impose totalitarian conditions. The script was written in 1917, it worked well in Eastern Europe and Cuba, and now we are seeing it in Central America.

Indeed, Adolfo Calero, one of the founders of the anti-Somoza Broad Opposition Front, imprisoned by Somoza in 1978, and now the leader of the FDN, said to me in a personal interview, "The Sandinistas make Somoza look like a saint."

Today, in 1984, the rebel-embattled Nicaraguan government has the largest ground force in Central America, dwarfing its neighbors in military might. The country is, in effect, a fortified base for the Soviet Union. According to a State Department source, from 1979 to 1983 Soviet-bloc nations provided the Sandinistas with $250 million worth of weapons. In Somoza's day, there were 11 military bases in the country; now there are close to 50. At its height, Somoza's feared *Guardia* numbered 11,000; today, the Sandinista army has 60,000 full-time soldiers and another 60,000 men in the militia and reserves. If the United States had a per capita mobilization equal to Nicaragua's, it would have 13 million men under arms (six times what it now has)—and it is the Sandinistas' announced intention to more than double their present mobilization, to 250,000 armed soldiers.

Military advisors from the Soviet Union, Bulgaria, North Korea, and over 2,000 from Cuba guide the operations of the Sandinista armed forces, the Cubans right in the field fighting against the guerrillas. The East Germans have instructed the Sandinistas in organizing a massive and ruthlessly efficient internal security apparatus. The Sandinista Defense Committee (known by its Spanish initials CDS) operates over 10,000 "block committees," which monitor, Big Brother–style, citizens' activities, encourage neighbor to spy on neighbor, unleash mobs to intimidate opponents, and are in charge of distributing many services, including food-ration cards. If you don't exhibit sufficient "revolutionary fervor" to satisfy your local block committee, you may not have very much to eat.

During my travels through Central America last year, I met many of the leaders of the various anti-Sandinista guerrilla insurgencies operating out of Honduras and Costa Rica. In spending time with Steadman Fagoth of Misura (Miskitos-Sumos-Ramas, the principal Indian tribes in northeast Nicaragua); Brooklyn Rivera of Misurasata (a splinter Miskito-Creole group); Carlitos Henry and other Creole leaders; Alfonso Robelo of ARDE; and members of

the seven-member FDN directorate, such as Adolfo Calero, Enrique Bermudez, Edgar Chamorro, and Indalaceo Rodriguez; as well as among many Nicaraguan refugees and *campesino*-Contras, I came to understand better why they are fighting fighting the Sandinistas. The more I heard, the more Nicaragua sounded like a replay of the crazed, envy- and hate-filled fanaticism of China's Cultural Revolution of the 1960s.

What can you say to a Nicaraguan woman, for example, who tells you how her father, mother, and sister were shot through the head and killed resisting the confiscation of their property by the Sandinista government, who walked four days over the mountains and jungles from Managua to Honduras with her five children, who is now a penniless refugee while her husband has joined the Contras—yet who still has a smile for you and reassures you that someday her country will be free? To a laughing teen-age boy whose lower right leg is a shattered mess, who says he can't wait for his leg to heal so he can return and fight the Sandinistas again? Or to a Creole grandfather who escaped to Costa Rica, alone in a tiny rowboat through the open sea, after Sandinista interrogators pulled his fingernails out, and who tells you: "The people of Bluefields are really suffering and begging for someone to help them. The freedom we had in Bluefields we have no more. We could go to church whenever we wanted, and after church we could easily take a walk and go back home, or go to a movie or a party. Now, it's not like that. Everything has changed completely."

But perhaps Nicaragua's most heartbreaking tragedy is that of the Miskito Indians. As Wycliffe Diego and Tillet Mullins of the Council of Elders, the Miskitos' tribal leadership, and Miskito guerrilla leader Steadman Fagoth explained to me: "Since the Sandinistas promised in the early '70s to support our goals of regaining land taken by Somoza's family, preserving our languages and culture, and participating fully in the economic and political life of Nicaragua, we helped and fought with them. But within the first week of their power, they began confiscating our land and controlling the production of coffee, beans, rice, everything.

"Then came the teachers, who demanded all villagers, adults and children, attend their Marxist-Leninist indoctrination sessions, and state security people, who told our ministers what they could and could not say in their sermons in church. The traditional Indian way of life is naturally opposed to Marxist ideology, and when the communities refused to obey, Sandinista troops came and massacred them. Four thousand separate houses were burned down in the Río Coco area. People saw all their animals—horses, cows, pigs, chickens, dogs—machine-gunned to death, their coconut and fruit trees set on fire, and had to flee with just the clothes on their backs.

"This started in early 1981. In February of '82, the church at Tulumbila village was burned down with many people inside. Just now [July 1983], all the Creole and Miskito villages of the Pearl Lagoon, Set Net, Tasbapauni, Kukra Hill—all of them—have been completely destroyed by 5,000 Sandinista soldiers. Twenty-five thousand of our people are refugees now in Honduras, 12,000 are in Sandinista concentration camps, and 10,000 are missing—most of them killed, we think, by the Sandinistas. So we have no choice but to fight, using Sandinista guerrilla methods against them."

Fagoth has about 3,000 Indian guerrillas under his command, operating in small patrols, harassing government garrisons, ambushing government convoys, and trying to protect Indian villages from reprisals. While he and his men lack sufficient weaponry and training to take significant amounts of territory, they

Top left: A villager (careful not to have his face photographed) informs Contra commander Armando Acevado of Sandinista troop movements. Top right: Susana Herrera was denounced as a counterrevolutionary after she refused to attend weekly Sandinista propaganda meetings. Above: Contras during a rest break. At left is Kaliman, whose squad was attacked while I was with the patrol.

Contra guerrilla Camilo Guzman, a former student: his protests against the Cuban teachers and their "Marxist rhetoric" nearly cost him his life.

have scored several successes, such as blowing up the fuel-storage facilities and wharves at Puerto Cabezas and Puerto Isabel on the Caribbean coast.

While Fagoth operates his Misura rebels out of Honduras, Brooklyn Rivera has set up his Misurasata group in Costa Rica, after a falling out with Steadman and the Miskitos' Council of Elders. Under Rivera, Misurasata has about 1,000 men (mostly Creoles, as the Miskitos and Sumos live far to the north—although his most famous commander, Treces Bojazos ["13 Blows"], is Miskito). These guerrillas stage raids, sabotage, and harassment operations in the Monkey Point–Punta Gorda area in southeast Nicaragua, and are expanding toward Bluefields.

One of Rivera's problems is that his men are only nominally under his command. It is the famous Sandinista hero Edén Pastora—Commander Zero—who gives the military orders, for Misurasata is part of ARDE, of which Pastora is the military director. Carlitos Henry's SICC (the Southern Indigenous Creole Community) is similarly aligned—but many Creoles don't trust Pastora. Pastora was still with the Sandinista junta when the massacres along the Río Coco and Caribbean coast began in early 1981. He refuses to fly the traditional blue-and-white flag of Nicaragua but flies the red-and-black Sandinista flag instead. He still calls himself a Sandinista—he has turned against the Sandinista regime, he says, because it has sold out the revolution to the Soviets and Cubans—and won't tolerate the term *piricuaco* in his presence. For these and other similar reasons, a great many Creoles and others in ARDE are afraid that Pastora's split with the FSLN leadership was personal and that he merely wants to replace the Sandinistas' ,nine-man directorate with that of one man: himself. They are afraid that for all Pastora's refusal to cooperate with the FDN because they are "Somocistas," if anyone has the capacity to be a Nicaraguan *caudillo*—another Somoza—it is Edén Pastora.

In addition to Rivera's 1,000 Misurasata guerrillas, Pastora has about 3,000 men under his FRS (Sandinista Revolutionary Front) command (many of whom, however, are so as members of Robelo's Nicaraguan Democratic Movement [MDN]). While Pastora has been able to effectively stifle traffic along the Río San Juan, he has been unable to expand his area of control much beyond the uninhabited territory between the San Juan and the Río Indio, in the southeast near the Costa Rican border. (By mid-April, Pastora's guerrillas had captured the Caribbean coastal town of San Juan del Norte, a few miles within the Nicaragua–Costa Rica border. But a Sandinista assault forced the rebels to withdraw from the town just days after they had taken it, and Pastora's announced plans for setting up a provisional government in southeast Nicaragua were, at least for the moment, foiled.) Although Pastora's men operate as far north as Rama, west into Rivas province, and have recently mined the port of El Bluff at Bluefields, large portions of the Sandinista army and militia have not deserted to his cause as he expected.

A principal cause of Pastora's lack of expected effectiveness is his obdurate refusal to join forces with Adolfo Calero's FDN. This is an endless source of frustration for the political leader of ARDE, Alfonso Robelo, who is revered by all those under him and whom I found to be possibly the single most impressive individual in all the anti-Sandinista resistance organizations. Pastora's denunciations of the FDN as a "three-layer cake" (the seven-member FDN directorate, many with unquestioned anti-Somoza credentials, on top; *campesino*-peasant guerrillas on the bottom; and ex-*Guardia* officers as the military command in the middle) are hollow now that the directorate has removed the offensive officers from the command staff. Today, Pastora's objections focus on directorate member—and former *Guardia* colonel—Enrique Bermudez (whom Somoza exiled to Washington, D.C., during the entire civil war for attempting to organize a reform movement within the *Guardia*).

ARDE political leader Alfonso Robelo realizes that "only through a united effort of both the FDN and ARDE is there any chance of ridding Nicaragua of the Sandinistas. Our country has now become a Soviet-Cuban colony. It is our duty to overcome past enmities in order to bring peace and freedom to Nicaragua." Pastora would not be the overall military leader of such a unified effort, as the FDN is three times the size of ARDE. It is likely this knowledge that blinds Pastora to Robelo's insight.

The Nicaraguan Democratic Force (FDN), which receives aid from the CIA, is far and away the largest and strongest of the anti-Sandinista groups, numbering around 12,000 men and women, some 8,000 of whom are now fighting inside Nicaragua. They are mostly *campesinos*—peasant farmers—and in one day, I saw over a hundred walking over the border into Honduras, asking to join the FDN. I talked with dozens and dozens of these Contras, getting to know in particular several of them in the patrol I accompanied inside Nicaragua. While each of them has his, or her, individual story, their stories, reasons, and goals had much in common.

• Julio Lopez Florian is 19 years old, from Ocotal, in northwest Nicaragua's Nueva Segovia province. He and his wife Xiomara have a 2½-year-old son. Julio joined the Sandinistas to fight against Somoza in 1976, when he was 12 years old. His brother had cooperated with the Sandinistas and was subsequently caught and tortured by the *Guardia*. The Sandinistas sent Julio to a training camp in Honduras called Colorado, and he returned under the command of Francisco Rivera, a famous Sandinista *commandante* known as "The Fox."

Julio took part in several battles, such as one at Apaji, near the Honduran border in northwest Nicaragua, in 1979, where he and 100 fellow Sandinistas fought off a large *Guardia* force. But by December 1982, Julio began cooperating with the FDN. In those three and a half years since the Sandinistas had seized power in July 1979, Julio saw "the *piricuacos* increasingly lie to the people of Nicaragua. They promised to have elections and democracy. We have not got either." (The Sandinista government has

scheduled national elections for November of this year, but many observers are doubtful that anti-Sandinista groups will be able to participate in any meaningful way.)

Instead, Jesus Oliva, a friend of Julio's who worked at the radio station in Ocotal, had his ribs broken by the Sandinistas for objecting to certain government programs. In March 1983, Father Ephraim Salcedo was saying mass in the church at Ciudad Antigua, when a group of Sandinista soldiers marched in, called his sermon *mierda* ("shit"), and physically ripped off his vestments. Julio began secretly distributing Contra literature and passing on information after a fellow Sandinista soldier bragged to him over a beer about an incident in Masatape on May 8, 1983—this soldier and his comrades shot seven women who refused to let their sons be drafted into the militia.

Then Julio's brother Bartholomew—the one who had been tortured by Somoza's men for working with the Sandinistas—got into a public argument with a Sandinista officer. When Bartholomew criticized Marxism as antidemocratic and accused the Sandinista rulers of not living up to their promises, the officer called him an antisocial reactionary, pulled out a revolver, and shot him dead in broad daylight on the main street of Ocotal. Julio fled to Honduras to join and fight with the Contras.

• Armando Cintaeno Acevado is 48 years old. He and his wife Miriam have seven children. As an agricultural wholesale merchant, Armando traded cattle, rice, corn, and beans in Nueva Segovia province. As an opposition candidate to Somoza's candidate, he was elected mayor of Ciudad Antigua in 1978 and 1979. When the FSLN toppled Somoza, Armando worked with Jaime Wheelock, a member of the ruling nine-man directorate, to form the Sandinista Health Committee in Nueva Segovia.

"We all thought we were working together for a better, freer Nicaragua after Somoza," Armando told me. "But then, upon orders from Jaime Agurcia, the Sandinista *commandante* for Nueva Segovia province, Sandinista soldiers began slitting people's throats and shooting them in the streets of Ciudad Antigua for being 'reactionary' and opposing Sandinista 'reforms.' "

After being jailed five times in one year for "lack of cooperation" with political organizing, Armando started giving information to the newly formed 15th of September Legion, which later evolved into the FDN. By now, 1981, the local Sandinista block committees were spying on everyone, and repression was in full swing. On February 3, 1983, Armando was released from jail—his sixth incarceration, this time for 40 days. So many people he knew had been arrested, never to be seen again, that he was certain his disappearance was only a matter of time. So he disappeared across the border to join the Contras.

At 48, Armando has fought in four pitched battles against the Sandinista army and ran me into the ground when I tried to keep up with him. "Every jail in Nicaragua is full," he told me, "as everyone is suspected of being counterrevolutionary."

• Susana Benavides Herrera is 24, from Telpaneca in Madriz province in northwest Nicaragua. She has three children but is separated from her husband. Her father is a *campesino*, a small farmer who owns a 12-acre plot of land on which he raises corn, beans, and a few cattle. Susana was denounced as a counterrevolutionary by the local block committee when she refused to attend weekly compulsory propaganda meetings. When she in turn called the block members atheists, her food coupons were revoked and her children threatened.

"It was easy to start collaborating with the FDN," she told me, "because there are so many members in my area. Finally, the threats against my children got so bad, I had to take them to my mother's and come here." "Here" was a particular Contra base inside Nicaragua, where I met her. She handles radio communications for the base and keeps the inventories of weapons, ammunition, and supplies. "All the men here have treated me well and with respect," she informed me. "We are all fighting together for what we believe in—for a Nicaragua free of political indoctrination, for a democracy and a free economy. We would rather die than let our children grow up in a Marxist, atheist Nicaragua."

• Frank Tourniel Amador is 27, from León in Chinandega province. He and his wife Maria have three children. Frank was condemned as a counterrevolutionary for objecting to food rationing, civilian repression, and state agricultural policies. "Just like most of us fighting in the FDN, I am a *campesino*," Frank confided.

"I would like to live in peace and be left alone to farm my small piece of land. But the *piricuacos* now tell you what you can and cannot grow on your own land. As bad as he was, Somoza never did that. Before, you could sell what you grew to whomever you wanted and buy your supplies from whomever you wanted. Now, you must sell your *maize* [corn] or *frijoles* [beans] or whatever to the State Agricultural Cooperative—at a very low price—and you can only buy sugar, salt, flour, and other things you need from the state as well—and at a very high price! The *campesinos* were hoping things would be better after Somoza. Instead, they are much worse."

Charley Fitzeral, a national track star now fighting with the Contras: "I must fight to put an end to this nightmare, fight for a free Nicaragua."

• Omar Aguilar Garcia is 20, from Diriamba, in Carazo province, south of Managua, and is not married. He and his family had a small coffee plantation, which was confiscated by the Institute for National Agrarian Reform set up by the Sandinista government. The family's house and both of their trucks were also confiscated, and when Omar's brothers resisted, they were arrested and shot without any trial.

"The first year of the Sandinistas was worse than 40 years of Somoza," according to Omar. "I and my family thought the Sandinistas would bring democracy at last to Nicaragua. That is why my family cooperated with them in their fight to overthrow Somoza, gave them food and information. But after they took power, once we started asking when were the elections, we suddenly were 'bourgeois exploiters' who unjustly owned too much land. There is no more freedom left in Nicaragua. There is nothing to do but fight."

• Camilo Guzman is 22, from a village

near Managua, the capital of Nicaragua. Before joining the Contras in January 1983, he was a student at one of the largest secondary schools in the country, the Experimental Institute in Managua. In the fall of 1982, the students began protesting the constant Marxist political indoctrination injected into every one of their subjects. "There are over 2,000 students at my school," Camilo told me, "and at least half joined a group of us objecting to our being given propaganda in place of education. What we all especially hated was the Cuban teachers, who couldn't teach anything except Marxist rhetoric. Anyway, the *piricuacos* broke up our meetings, beat many of us up very badly, and killed two of our leaders. I learned through a friend that I would be next, so I contacted the FDN, and they arranged for my escape."

• Antonio is a small, young boy not much bigger than the AK-47 Kalashnikov machine-gun he carries. His code name is "Canela" (Cinnamon), and he is 13 years old, from the town of Mozonte in Nueva Segovia in the northwest. In May 1983, his mother had complained about food shortages, that the Sandinistas were ruining the economy. In response, Sandinista soldiers broke into their house. One soldier shot Antonio's baby brother in the shoulder with an AK-47, while another stepped on the baby's right hand, breaking it. They threatened to kill Antonio's mother and her entire family if she made any more "reactionary" complaints. Antonio's father, a *campesino*, went into hiding, while Antonio, his mother, and his baby brother fled to Honduras.

A week before I met him, Antonio had walked back into Nicaragua and brought his father out. A 13-year-old boy had saved his father's life, and there was a depth to his pride that words could not describe. Now son and father were fighting in the FDN together.

Far from being reactionary "Somocistas," the Contras seemed to me to represent a genuine peasant rebellion against a totalitarian regime. But I must admit to acquiring a growing affection for the young men and women I met who are risking their lives—voluntarily and without pay—to struggle against the Sandinistas.

It takes a lot of time, money, and professional training to develop an effective guerrilla operation. The FDN is operating with small quantities of all three, even with an estimated annual aid of $21 million from the CIA since late 1981 (mostly light equipment and staff advice). Further, it is vastly more difficult to conduct successful guerrilla activities in a real totalitarian state than in a corrupt autocracy, as was Somoza's Nicaragua. The Contras so far have been limited to hit-and-run raids. To genuinely take and control substantial areas, they would require thorough and professional training programs, as well as air-dropped supplies and matériel in-country on the same massive and sustained scale as the Soviets, via Cuba and Nicaragua, are supplying their client rebels in El Salvador.

Whether the Contras succeed is right now anybody's guess. The FDN and Misura have become increasingly effective in the last few months, staging 77 separate in-country operations during March alone. They have established large arms and matériel caches inside Nicaragua, are becoming more tightly and professionally organized, and are gaining popularity with the peasants (for example, the FDN pays well—and in cash—for any food its troops require, a practice I witnessed several times). Consequently, just as things are going well for the rebels, FDN leaders now are deeply frustrated by the US Congress's threat to cut off aid to them following the recent revelations about CIA involvement in the mining of Nicaraguan harbors.

The official rationale for that aid is to enable the Contras to intercept Sandinista arms shipments to El Salvador's Marxist rebels. The Contras, however, are *not* fighting for the United States' national security and simply do not care about Sandinista arms shipments to Salvadoran rebels. "We are not customs agents," Adolfo Calero told me.

Rather, the Contras—at least those I was with—are fighting for the freedom of their own country, which means: political and economic freedoms of the press, speech, assembly, religion, and, most especially, the ballot. No FDN leader, even in unguarded moments, confessed to me a desire to take over the government. "Our goal," said Calero, "is to force the Sandinistas into holding free elections—the 'real McCoy,' as you say—something no Marxist government has ever voluntarily permitted." Freedom for the Contras also means an end to foreign domination—no more Soviets, Cubans, or East Germans in Nicaragua.

It was nearing dawn, and we were in northwest Nicaragua's Santa Clara valley, near the town of San Fernando. This was real Apache country—the place was crawling with Sandinista troops. Last night, friendly villagers had, at considerable risk, brought us some food, rice, and cooked plantains. Suddenly, a part of our patrol up ahead, led by a tough young kid named Kaliman, ran right into a detachment of Sandinista soldiers. The rockets, grenades, and machine-gun fire were landing much too close to me for everyone's comfort. It was Charley who grabbed my arm to lead me out of harm's way.

We cut through an abandoned coffee plantation and started heading back up into the hills. Most of the patrol would be staying inside—but Charley volunteered to lead the group that would guide me back across the border to Honduras.

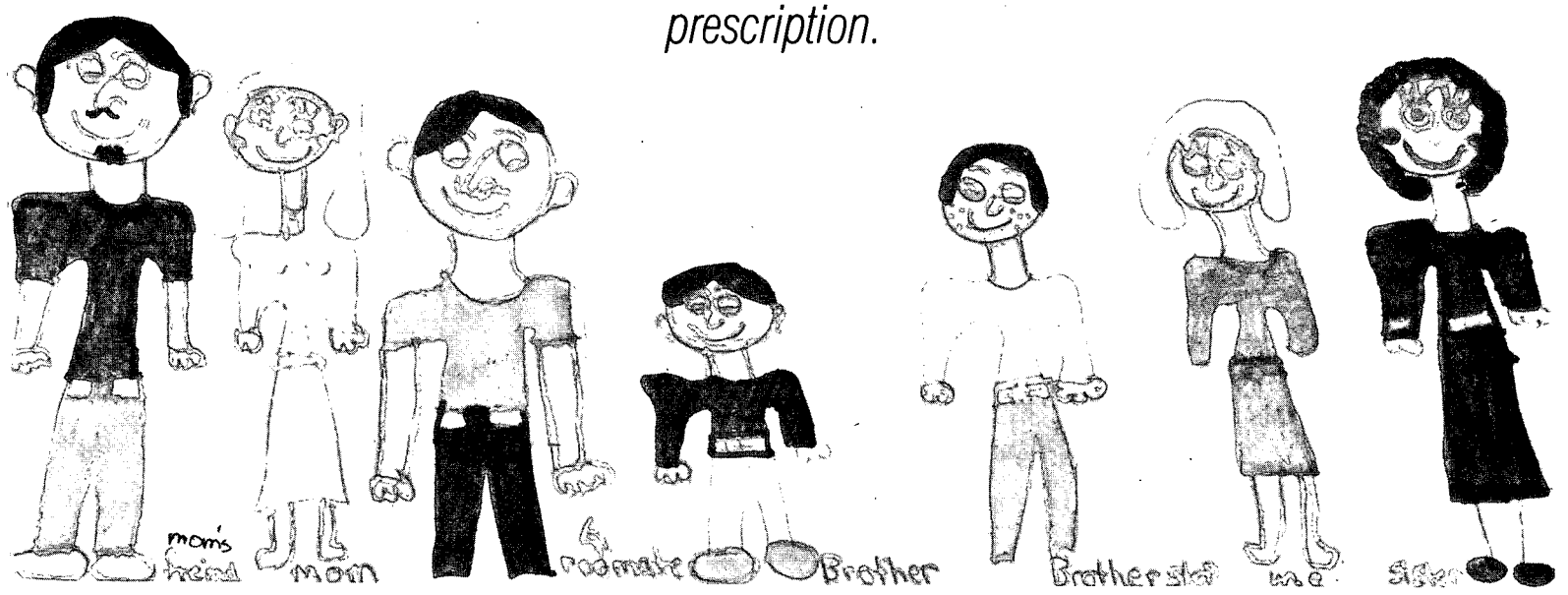
For a solid nine hours we hiked through dense thickets of bamboo; across grassy hills studded with pine trees and mooing cows; past lush coffee, banana, and guava *fincas*; and then into the rain forest. I like jungles, because there is so much *life* in them, all wild and free. But now there was no time to relax, to absorb the sight of the towering vine-covered trees, the parades of leaf-cutting ants across the jungle floor, the brightly colored beetles, the flocks of parakeets, the myriad different-colored mushrooms and flowers glowing with a soft iridescence. I had to concentrate on ploughing through ankle-deep mud, crossing over an endless number of streams and fallen logs, and not tripping on the ever-present roots along the trail.

I was not sure if I had ever been so exhausted or drenched with sweat in my life as I pulled into the Honduran camp. But I had kept up with Charley every step of the way. I collapsed into a hammock and fell asleep. In the meantime, Charley had something to eat and got himself rearmed and supplied. An hour and a half later, he woke me up to say goodbye—he was ready to leave, to walk back and rejoin his patrol.

I watched Charley as he marched down the hill from the camp and climbed up a nearby ridge. When he reached the crest, he stopped and looked back at me. It began to rain. My last sight of Charley was of him standing silhouetted on the ridge in the pouring rain, green bandana around his head, green sleeveless shirt, deltoids bulging, carrying an M-60 machine-gun with bandoliers of .308-caliber cartridges wrapped over his chest. He waved farewell, and I waved back. Charley raised his fist to the sky and yelled, "In Managua!" Then he turned and disappeared into the rain over the ridge, back to Nicaragua, back to the fight again. ◻

Jack Wheeler has a Ph.D. in philosophy. His first article in this "Fighting the Soviet Imperialists" series (on Angola's UNITA guerrillas) appeared in the April issue. This article is a project of the Reason Foundation Investigative Journalism Fund.

Conservatives and liberals prescribe government ministrations for the ailing American family. But a thorough checkup yields a different diagnosis and a laissez-faire prescription.



FAMILY FEVER

By Jeff Riggenbach

"The family is a hot issue," writes Letty Cottin Pogrebin, long-time feminist and one of the founding editors of *Ms.* magazine, in her book *Family Politics*, published last year. "Judging by the proliferation of magazine cover stories, television features, talk show discussions, academic research, and public policy discourse being devoted to the state of the American family, it seems safe to say that what civil rights and Vietnam were to the Sixties, and women's rights and the environment were to the Seventies, family issues have become to the Eighties."

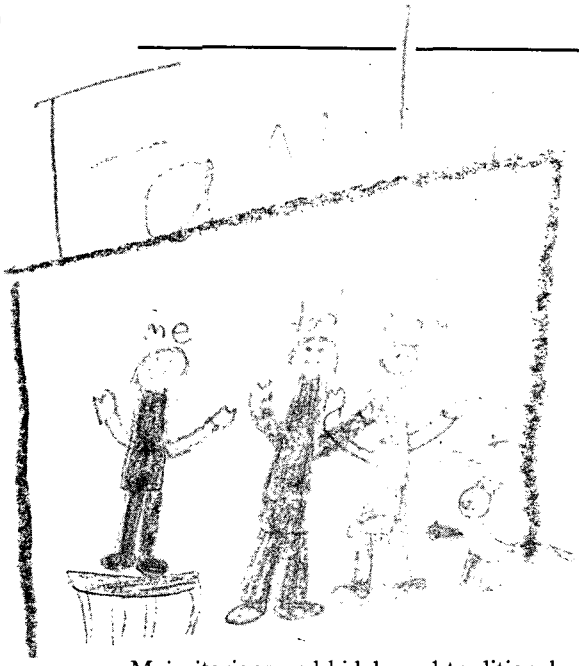
Pogrebin may be overstating the case somewhat, but not by much. The evidence in support of her contention is to be found not only in the magazine articles, academic publications, and TV shows to which she alludes, but also in the pages of the many books on marriage and family matters that have been published over the past few years.

In one of these books, *What's Happening to the American Family?* (1981), sociologists Sar Levitan and Richard Belous write, "Marriage and family appear to have fallen on hard times," and the resulting "sense of something falling apart has even reached the White House. . . . Both Democratic and Republican Presidents have foreseen disturbing omens in current family trends. The Carter administration launched a nationwide White House Conference on Families in an effort to cope with these problems. Not to be outdone, Ronald Reagan proclaimed, upon accepting the Republican nomination, that his administration would be a crusade to revitalize American institutions. The first institution on his list was the family."

Nor is this official concern for the vitality of the family confined to the White House. Over on Capitol Hill, a group of Republican lawmakers has also been anguishing over the plight of the family. And in every session of Congress since 1979, these congressmen have been proposing a Family Protection Act to set things right again. For the moment, the act is dead. But odds are it will resurface in the fall. Those who have been backing it for the past five years are unlikely to give up so easily on their desire (in the language of the act) "to preserve the integrity of the American family, to foster and protect the viability of American family life. . . and to promote the virtues of the family."

The problem is that what the Moral

ILLUSTRATIONS BY THE 3RD AND 4TH GRADE CLASSES AT WASHINGTON ELEMENTARY SCHOOL, SANTA BARBARA, CALIFORNIA



Majoritarians and hidebound traditionalists behind the Family Protection Act really mean when they talk about "the family" is the so-called traditional family: a breadwinning father, a full-time housewife mother, and one or more children. But fewer than one American household in five these days is inhabited by such a family. In fact, even if you consider families like mine to be "traditional"—families in which both parents work, both parents are on their second marriages, and the children have different fathers and different surnames—even then the traditional family is in a minority. More than half of all American households are now occupied by untraditional families or by single individuals living alone.

According to the partisans of the Family Protection Act, what lies at the heart of the current crisis of the American family is precisely the fact that the traditional family—the household type that (they contend) has always been the norm in America—has lately begun eroding away, mostly in response to certain meddlesome policies of the federal government. It is true, of course, that certain recent federal programs have created incentives to break up traditional families—the welfare rules, for example, that reward an unemployed father for deserting his family. Yet in point of fact, the decline of the traditional family did not begin a mere few decades ago with the birth of federal meddling. It began long, long before.

"The family, in its old sense," wrote a contributor to the *Boston Quarterly Review* of October 1859, "is disappearing from our land, and not only our free institutions are threatened but the very existence of our society is endangered." Jonathan Gathorne-Hardy reports in his book *Marriage, Love, Sex and Divorce* (1981) that the same state of affairs existed 300 years ago in Stuart England, where many of the original American colonists came from. "So far from stable," writes Gathorne-Hardy, the family in 17th-century Britain "was in a state of 'collapse' which it has not yet reached even in America. At Clayworth (one of the parishes where evidence over time exists) in 1688, 39 percent of marriages were with a partner married before; 13 percent were second marriages, 3 percent were third marriages, 4 percent were fourth and one person had had five previous partners. From other sources one can gauge that approximately one-third of all marriages in Stuart England were second marriages or more."

Of course, the reasons for marital termination were different in those days. "Death played the part then that divorce does now," Gathorne-Hardy notes. And "one can speculate that, if the same conditions existed today and if death struck by chance as often, then one-third of the marriages which today solve their difficulties by divorce would have solved them by death.

"The idea that the instability of modern Western marriage, all the divorcing and splitting and affairs, somehow means that society is actually less stable, is not true," Gathorne-Hardy concludes. "The institutions in the old world were expedients to provide an illusion of permanence in a world which was impermanent and insecure. They were therefore talked and written about as permanent to such an extent that we have come to believe it. The evidence, however, is that they were not." All in all, "we are just as stable as the past."

Is more evidence needed? Very well. "In the 1860s," Richard Sennett wrote eight years ago in *The Fall of Public Man*, "social workers in both London and Paris were...worrying about the demoralization of the poor, and linking that demoralization to the family conditions in which the poor lived. In the 1860s, as in the 1960s, a 'broken home' was usually taken to be the specific culprit, again with a female as the usual head of the household." Levitan and Belous, in *What's Happening to the American Family?*, sum the matter up: "marital disruption was also a problem in the 'good old days,' even though its causes have shifted. With vast improvements in health, plunging death rates for all ages counterbalanced increases in the divorce rate during this century to such a degree that the rate of marital disruption for all causes was fairly stable until 1970."

Levitan and Belous remind us also that 19th-century America "was full of experimental communities that explored new family forms," communities like John Humphrey Noyes's Oneida, which did away with traditional marriage altogether on the grounds that it was contrary to human nature. But, Levitan and Belous comment, even when it has been "granted that alternative family structures have always existed, it has been argued that a growing number of individuals are availing themselves of these opportunities. Even this point is highly debatable. For example, while there has been a vast increase in the reported number of couples living together without the blessings of state or church, it is quite difficult to know how much of this shift is really a new trend. With diminished social pressures to follow any one pattern, a good portion of the reported increase in this behavior may represent only the increased willingness of people to be open about what has always taken place. 'Swinging' is probably one of the oldest indoor sports known to humanity, as even a casual reader of the Bible would easily find, and not all of the participants were villains. What may be new is the willingness on the part of the players to publicly extol its virtues to the multitudes."

Johns Hopkins University sociologist Andrew Cherlin, author of *Marriage, Divorce, Remarriage* (1981), carries this line of thinking to its obvious conclusion by arguing that what we see around us today, what the Moral Majoritarians decry as the crisis of the family, is in fact the norm in American life, the norm from which our national experience during the hallowed 1950s was a unique deviation. "The birthrate has been declining since the 1820s," Cherlin writes, "the divorce rate has been climbing since at least the Civil War, and over the last half century a growing number of married women have taken paying jobs. Thus, many of the changes we witnessed in family life in the 1960s and 1970s were a continuation of long-term trends that have been with us for generations.

"The only exception occurred during the late 1940s and the 1950s," Cherlin continues. "After World War II, Americans raised during the austerity of the Depression and the war entered adulthood at a time of sustained prosperity. The sudden turnabout in their fortunes led them to marry earlier and have more children than any generation before or since in this century. Because many of us were either parents or children in the baby-boom years following the war, we tend to think nostalgically that the 1950s

typify the way twentieth century families used to be. But the patterns of marriage and childbearing in the 1950s were a historical aberration: the patterns of the 1960s and 1970s better fit the long-term trends."

What is the meaning of these long-term trends? What is their cause? If they have been with us since the last century it would seem obvious that they can hardly be attributed to the interventions of big government and the welfare state. In fact, there is evidence to suggest that even in recent years government interventions have been only a minor factor in accelerating these trends. It is common knowledge, for example, that the federal welfare program known as Aid to Families with Dependent Children encourages the formation of single-parent households, commonly consisting of unmarried, unskilled, unemployed women and their children. Yet Levitan and Belous report that "most of the increase in the number of female headed households is accounted for by childless women who are ineligible for public assistance benefits."

These childless women are forming their own self-headed households, not because of some action of some government, *but because that is how they choose to live their lives.* Cherlin refers to "the growing likelihood that unmarried individuals will choose to maintain their own households rather than live with kin" as perhaps the most important change [that has] affected the composition of households." He writes: "It used to be common . . . for a woman to move back to her parent's home after she separated from her husband, but today separated and divorced women are much more likely to set up their own households. Never-married young adults, whose numbers have been increasing, are less likely to remain at home until they marry than they were twenty years ago. Similarly, more older, widowed people are living by themselves rather than moving in with their children. It may be that the preferences of unmarried adults concerning living arrangements have changed. I suspect, however, that most unmarried adults always have preferred to live independently, only today they are more likely to have the financial resources to do so."

It might also be argued, of course, that most married adults always have preferred to remain married only when they found their marriages personally satisfying but are more likely today to have the financial resources to exercise such a preference. "Many of the traditional reasons why people got married and stayed married are less compelling today," Cherlin writes. "The greater economic independence of women means that marriage is less necessary as an economic partnership, as a common enterprise that creates a joint product neither partner could produce alone. And as the success of the economic enterprise becomes less crucial to husbands and wives, their personal satisfaction with their marriage becomes relatively more important. Consequently, it seems to me, husbands and wives are more likely today than in the past to evaluate their marriage primarily according to how well it satisfies their individual emotional needs. If their evaluation on these terms is unfavorable, they are likely to turn to divorce and then, perhaps, to another marriage."

The conclusion seems inescapable: People used to have children because they had to. They used to get married and stay married because they had to. And once they had become old and feeble they used to live with their children and rely upon them for their support because they had to. Once they no longer had to do these things, they stopped doing them.

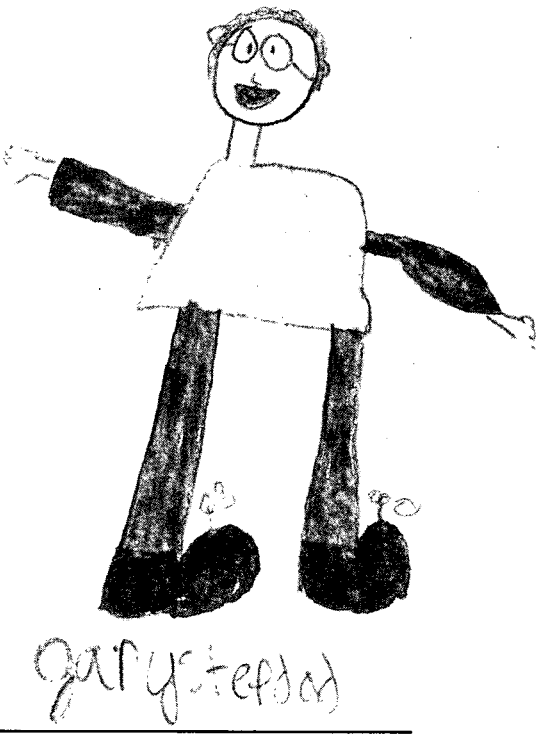
This is, says Andrew Cherlin, "the way in which the United States—and, indeed, every advanced industrial society—has developed. As we moved from a rural, agricultural society to an urban, industrial one, the economic value of children declined and people had fewer of them. As the production of goods and services shifted from the home to the factory or the office, women were drawn into the labor market, thereby becoming more independent of men. And as the school, the hospital and the old-age home took over many of the functions family members used to perform for each other, men and women found it progressively easier to live nontraditional family lives."

Should it surprise anyone that people took advantage of their newfound opportunity? Does it really come as a surprise even to the prating Bible thumpers of the Moral Majority to learn that the "traditional" nuclear family is not the best of all possible worlds for everyone?

"When I can no longer bear to think of the victims of broken homes," says humorist Peter De Vries, "I begin to think of the victims of intact ones." And the latter are legion. "A high incidence of violence within the family has come to light in recent years," write Levitan and Belous. "Almost 1 million children may be neglected or abused each year, and as many as 2 million women may experience violence in the home. . . . The Office of Domestic Violence in the Department of Health and Human Services estimated that about one of four couples will undergo serious family violence during the course of a marriage or relationship. Roughly 25 percent of all homicides involve spouses, and 20 percent of all police deaths and 40 percent of police injuries occur when an officer responds to a 'family violence' call." Moreover, they report, "automobile accident cases still make up the majority of suits in court, but family-related cases are currently running a close second."

Karen Lindsey, the avowedly leftist and feminist author of the 1981 book *Friends as Family*, paints an even grimmer picture. "As many as 60 percent of all married women are beaten at least once by their husbands," she writes. "And between 500,000 and one million elderly parents are abused each year by the adult offspring they live with." The National Campaign for the Prevention of Child Abuse and Neglect estimates that "in up to 20 percent of American families, children are subjected to physical abuse, sexual abuse and neglect." And then there's the runaway problem. "An estimated 2 million youngsters run away from home every year," the *Los Angeles Times* reported in late November 1981, "and that rate is steadily increasing. While 15- and 16-year-olds account for nearly half the runaways, they range in age from 10 and 11 on up, and the national Runaway Switchboard reports serving children as young as 8 and 9."

If these kids run away, if their mothers seek divorces, if their grandparents choose to live by themselves, can anybody realistically contend that they have



made these choices because an unholy alliance of secular humanists and godless communists has conspired against the traditional family? These people leave the family because in their homes familiarity has bred contempt—and worse than contempt. "The family is the American fascism," said Paul Goodman. And for many in our society, that is precisely what it is.

Of course, for many others, myself included, the family is something else entirely. It is a way of life, and one which we feel we have freely chosen because of the various satisfactions it offers us. Why do we do it? Why do people form families? What are families for, anyway?

There are those—fundamentalist Christians, for example—who argue that such questions are pointless. We live in families because that's the way God set things up in the beginning, with Adam and Eve and Cain and Abel. That's all we know and all we need to know. Trying to figure out why God set it up that way is as foolish as trying to figure out the significance of the fact that the very first nuclear family in all of human history exploded into an act of violence that left one of its members dead at the hand of another of its members, even though violence on TV, rock music, secular humanism, and the federal government of the United States were not problems in the Garden of Eden.

But set these true believers aside for the moment; we'll be coming back to them soon enough. The conventional wisdom among most other students of the family as a social institution is that its purpose is economic and broadly cultural. On the one hand, it offers its members the easiest or most efficient way of getting a decent living. On the other, it provides its members, especially its child members, with practical training in the skills one needs to deal with other people in the outside world.

When life was mainly agricultural and the home was the workplace, families were large and typically included several generations. This assured an adequate number of able bodies to do the work, and it assured that those who had become too old and feeble to do any hard work would be available to look after those children who were still too small to do any hard work. And everyone benefited from the arrangement. The children and the old folks were obviously able to get a better living for themselves by living in a family than they could have got by themselves. And the able-bodied adults in their prime who might have done all right on their own also gained certain economic advantages by living in the family. Perhaps most important among these was the knowledge that in time of illness or temporary disability, there would be people to care for them and absorb the cost of their daily lives until they could work again. In this sense, the family was a source of security, an insurance policy.

But as the Industrial Revolution simultaneously raised per capita income and moved the population into cities, this kind of security became increasingly irrelevant. The home was no longer the workplace, so it was not advantageous to add members to the household, whether in the form of new children or aged relatives. Now that the work of the family was done outside the home, new additions were no longer added hands; they were added *costs*—parasites, if you will. On top of that, while space for additional people was cheap in the country, it was very expensive in the city. So people began living in smaller families, and the norm became parents and their children, but neither the parents' parents nor the children's children. The extended family had given way to the nuclear family.

Since that time, per capita income has continued to climb, and various institutions, some of them voluntary, some of them governmental (which is to say compulsory), have begun taking over many of the old functions of the family. You don't have to live in a family any longer to assure yourself of income during time of illness or temporary disability—all you have to do is buy an insurance policy. You no longer need your aged parent at home to watch the kids while you work—you can send the kids to a day-care center or a public school, and you can send the aged parent to an old-folks' home. If your income is high enough, you can pay strangers to do all the things for you that you used to get from family members. And if your income isn't high enough, you can probably get some extra money from the government to make it high enough.

For people who don't like the members of their biological families (and such people have been quite common ever since the days of Cain and Abel), the temptation to hire strangers and live alone is apparently great. Others who don't like the members of their biological families seem to feel a different temptation, however. They leave their biological families, but they don't hire strangers. Instead, they move in with other individuals and form surrogate families of various kinds.

These surrogate families have become quite controversial of late, particularly among those who feel that since God has decreed what sorts of groups we are to live in, that settles the matter and anyone who chooses to live in a group of any other sort is tantamount to a sinner. "The public continues to receive a steady parade of examples 'proving' that divorced, never-married, homosexual, bisexual, transsexual, communal, and living-together units form the bulk of today's 'families,' " writes Jeane Westin, author of *The Coming Parent Revolution* (1981). "The most noted 'family experts' huddled together for a four-day conference in the late 1970s to answer the question, Who can define 'family' in a way everyone would accept? No one pointed out that 'family' has always been defined as parents plus children and that family experimenters can jolly well come up with their own concepts rather than asking the traditional family to move over." Westin asserts, "The continual extension of the concept of family to include every social fad and sexual fancy has resulted in the trivialization of the family."

"If you recall," Sen. Roger Jepsen (R-Iowa) told his fellow members of the upper house of Congress in June 1981 when he introduced the then-current version of the Family Protection Act, "after the 1970 White House Conference on Children and Youth, the Forum 14 report redefined the family as a group of individuals in interaction.

"The American Home Economics Association has determined that the family is a unit of two or more persons who share values and have a commitment to one another over time. Unfortunately, such all-encompassing definitions, which at first glance may appear bland and academically accurate, actually extend the meaning of family to include anyone and anything from group marriages to

homosexual and lesbian couples who want to adopt children."

The question is, Why is this "unfortunate"? If the purpose of the family is economic—if, that is, the family is an institution that is entered into by its members in order to improve their overall standard of living and provide themselves with a measure of security during hard times—why isn't any group of individuals who live together for these purposes properly considered a family? If another function of family life is to provide moral and emotional support for family members when they are demoralized, disgraced, or defeated, why isn't any group of individuals who live together and support each other in this way properly considered a family? If still another function of the family is to provide education in living skills for children, why isn't any group of adults and children who live together properly considered a family? If it weren't possible for biologically unrelated individuals to interact satisfactorily as family members, conventional marriage—that is, marriage to nonrelatives—would be impossible, as would adoption. The old adage that you can choose your friends but not your relatives is universally acknowledged to be untrue when it comes to husbands, wives, and adopted children. Why then is it true of parents, grandparents, aunts, uncles, cousins, and siblings?

In fact, people *have* been exercising choice with respect to their family members for hundreds of years, albeit in a more informal manner than the one that typifies legal marriage or adoption. All of us have heard people remark of unusually close friends that "I love him like a brother," or "I love her like a sister," or "She's been like a second mother to me," or "He's like the father (or son or daughter) I never had." Many of us have known people who have informally adopted other unrelated adults into their families, shared holidays with them, and named them "honorary" aunts or uncles of their children. Many of us have friends who are looked upon by all the members of our biological families as loved ones and who are entitled, in our minds, to the same treatment we would extend to our own brothers or sisters. We tell these friends to feel free to visit any time, even on an unannounced basis. We tell them to "make themselves at home." We lend them our money and our cars and our irreplaceable treasures—things we make a policy of never lending to anyone else. We give them keys to our homes, trust them with our children, turn to them for moral and emotional support. And we feel able to call upon them in any emergency, just as they feel able to call on us. What are these special friends but adopted family members, people we have adopted without the usual bureaucratic rigamarole that ordinarily accompanies adoption, but adopted nonetheless?

Social observers Karen Lindsey and Jonathan Gathorne-Hardy see this phenomenon of "friends as family" as the wave of the future. But as we have seen, it might equally be regarded as the wave of the past re-establishing itself after a brief apparent absence during the 1950s. For most of the past two centuries, with the exception of that brief but crucial period of slightly more than a decade, the "traditional" family has been merely one of a number of possible household units, all of which have been common. It may be useful at this point to repeat the admonition of Levitan and Belous that "with diminished social pressures to follow any one pattern, a good portion of the reported increase in this behavior [unconventional family types] may represent only the increased willingness of people to be open about what has always taken place."

But of course such increased openness can only serve to encourage those who waver between following established social practice despite the fact that they find it unrewarding and doing their own things, unconventional though those things may be. Inevitably, some of the apparent increase in unconventional family life that we seem to see all around us *is* new, *is* a real increase. It is the natural tendency of market economies to gradually increase the personal wealth of almost all who participate in their operation. And increased personal wealth means wider personal choice—in the current vernacular, more options. So it is that as per capita income has grown in our country, it has become increasingly possible for more and more people to live in untraditional households. The expanding market for goods and services has led to the establishment of an expanded market for types of families. And the majority of Americans have voted with their feet and their pocketbooks and their hearts for untraditional family lives.

And what should be the role of government in all this? There is widespread consensus that it should be an active one. Letty Cottin Pogrebin speaks for the political left, but no right-wing defender of the family would disagree with her when she writes, "Families might be less sophisticated political activists than the farm or tobacco lobby... but who's to claim families are not more entitled to federal supports and subsidies?" No, the only real argument between the liberals and the conservatives when it comes to government family policy is over which kind of family should be singled out for benefit—traditional families or untraditional families. The reactionary right would have government set up incentives so that Americans who opted for traditional family life would be rewarded, often at the expense of those who prefer untraditional family life. The liberal left would have government subsidize untraditional family life, often at the expense of those who prefer traditional family life.

I say a pox on both their houses. To each his or her own. Let government adopt a family policy of laissez-faire. Let each man and woman, and to the extent that it is feasible each child, do what he or she wants. They have, all of them, the inestimable advantage of knowing much better than any government bureaucrat exactly what they want, and what price they are willing to pay to get it. ◻

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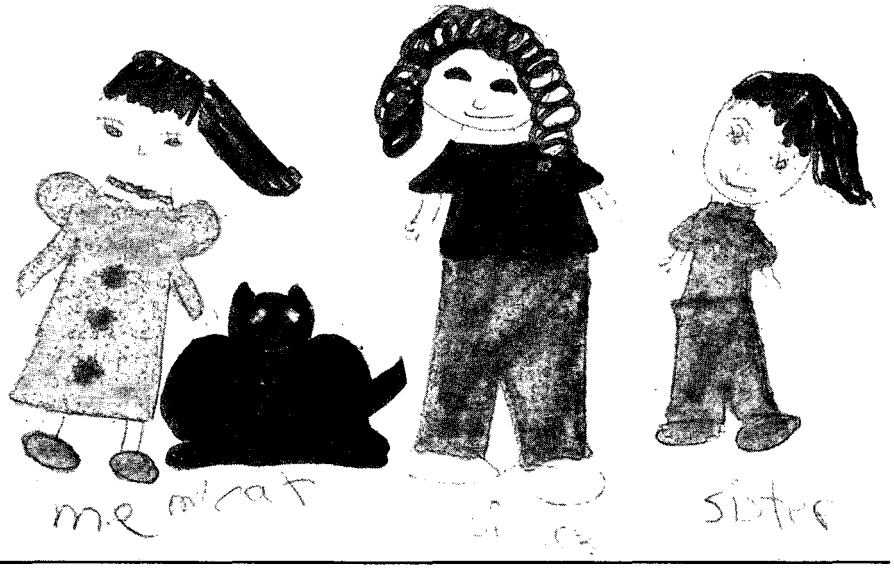

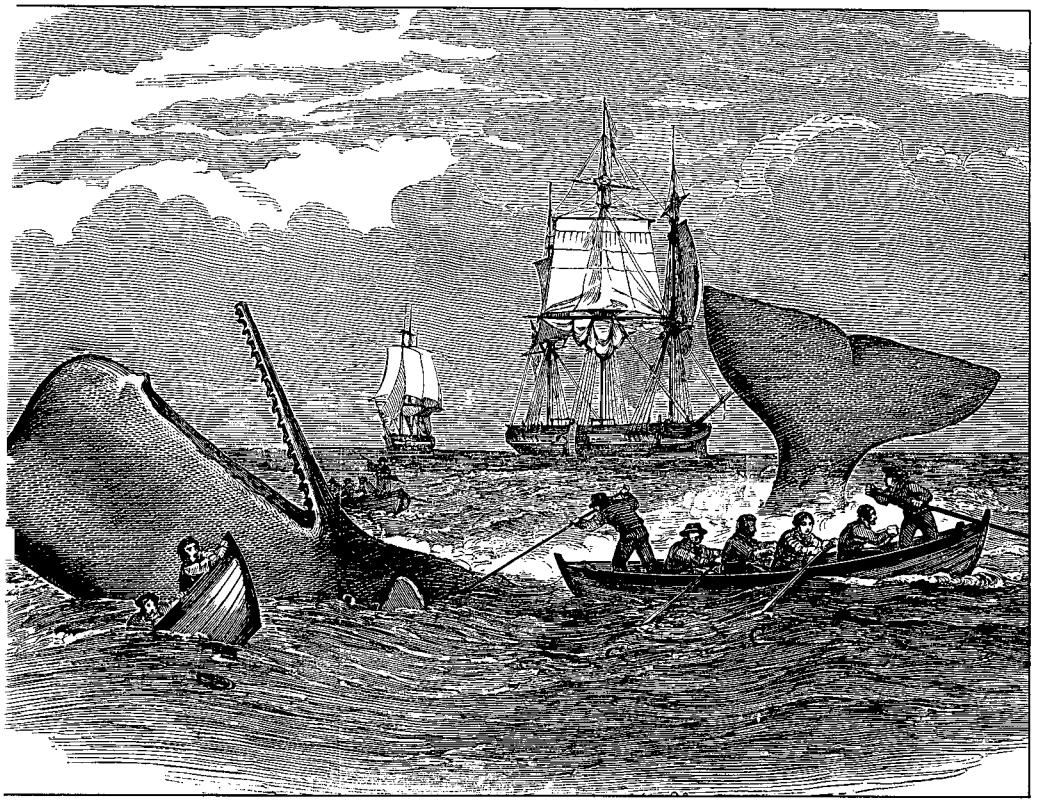

Why Aren't You Worried about a Shortage of Whale Oil?

America's first oil crisis occurred long before the 1970s — and it was solved without the government stepping in.

By Charles Maurice and Charles W. Smithson

In the 1970s it was petroleum. Back in 1905 it was timber. In other eras it was food, rubber, whale oil, charcoal, labor, and tin, to name just a few. Throughout human history, from one age to the next, there have been critical shortages of resources. And in each instance, there have been experts who predicted that we were soon to run out of the resource and that society was doomed.

Forecasts of doom and gloom have existed for as long as civilization has existed. But all these forecasts have been wrong. No civilization has collapsed because of the depletion of a resource. Again and again, so-called resource crises have been overcome. And it hasn't been because people learned to live with less. Nor has it been because governments stepped in to regulate production and consumption. Instead, freely functioning markets have eliminated the shortages. When markets have been allowed to operate, shortages have induced price increases. People have reacted to these increases by finding substitutes for the scarce resource, by adopting new technologies, and by resource conservation.

Reports in the popular press notwithstanding, the problems we face today are no different from those that societies experienced in the past. As long as markets are permitted to function freely, we can expect resource scarcities to be resolved with the same patterns of adaptation. Our faith in the ability of the market to eliminate crises is not based on metaphysics or even on the power of modern economic theory. Instead, it is based on the simple fact that the market has repeatedly worked to eliminate resource shortages in the past. A look at just one historical example—America's whale-oil crisis in the nineteenth century—shows how the market works to solve critical resource shortages.

During the past decade, we have heard much about alternative energy sources and synfuels. However, few people remember that petroleum is itself an "alternative energy source." Petroleum—or, as it was called, "rock oil"—was the alternative energy source of the 19th century.

Prior to the Civil War, America lubricated its machinery and fueled its lamps with oil from whales. Sperm oil, obtained from the sperm whale, was the best illuminant available at the time. But oil from other types of whales, because it was considerably cheaper than sperm oil, was widely used also. At the time, these oils were practically "essential" to an industrializing economy.

Nonetheless, during and after the Civil War, the whaling industry experienced a rapid decline. What led to such a dramatic decline? Why did such an important industry become so insignificant? Many writers have argued that the discovery of petroleum led to the demise of the whaling industry. For example, in *The Whalers*, A. B. C. Whipple asserted that:

> *It is a safe assumption that in 1859 very few, if any, whalemen had heard the name Edwin L. Drake. And there was no reason why they should have, for Drake was an obscure entrepreneur. But over the next decades every whaleman would come to know, and curse, Drake's name. For on August 27 of 1859, his Seneca Oil Company succeeded in extracting petroleum from the earth by drilling 69 feet down into the soil near Titusville, Pennsylvania. In so doing he put an end to Yankee whaling industry just as surely as if he had drilled a hole in the hold of every whaleship.*

Unquestionably, petroleum did replace the previously necessary sperm and whale oil as the primary illuminant and lubricant during the decade after the Civil War. But many who have written about the rise of the petroleum industry tell a different story from that told by the chroniclers of the demise of whaling. For

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example, in the centennial issue of *World Oil*, we find the following:

Oil had been known since the beginning of history. The pitch used to caulk Noah's Ark undoubtedly was petroleum. Many other simple uses are recorded in the early pages of history and down through the centuries. Early American settlers found Indians skimming oil from seeps and using it for both internal and external medicine. A few enterprising American business pioneers were selling "Rock Oil" as medicine by the middle of the 19th Century. Their sources of supply were seepages or salt brine wells in which they were "unfortunate" enough to find oil.

However, no one gave any serious study to the commercial possibilities of oil until the simultaneous beginnings of the Age of Light and the Machine Age created the world's first and most serious oil shortage.

Keep in mind that the preceding quotation was published in 1959, fourteen years before our own serious oil shortage. However, the important assertion made in this article was that the rise of the petroleum industry was itself the *result* of a shortage of whale oil—America's first oil crisis.

Which was it? Did the rise of the petroleum industry sink the whaling industry? Or, was the advent of the oil industry the result of a shortage of whale oil? Was there a whale-oil crisis? Let's look at some historical evidence.

The first whaling in North America was done by Indians on the east and west coasts, long before Europeans arrived. The search for whales probably began with the killing of stranded whales, for which the Indians kept watch.

After Europeans settled New England, they also kept watch for and killed stranded whales. Not long after the settlement of New England, American whalers began to go to sea and hunt whales, probably because relative to the expanding population, fewer and fewer whales were becoming stranded in coastal bays.

New Englanders became familiar with the new (to them) and superior sperm whale when one of their species became stranded close to shore. As people became familiar with the superiority of sperm oil as an illuminant and as certain other types of whale were becoming scarce, whalers increasingly searched for sperm whales. A new industry was born.

The demand for whale products in England and the colonies increased rapidly during the first half of the eighteenth century. Consequently, the price of sperm oil rose substantially during the century until the beginning of the Revolutionary War. In 1731, the price of sperm oil was 7 pounds sterling per ton. In 1768, the price had risen to 17 pounds sterling per ton; at the beginning of the war, the price was over 40 pounds sterling. Since the index of consumer prices remained relatively stable in this period, the increase was large in both nominal and real terms.

As we would expect, the increase in price led to a substantial increase in the number of whaling vessels. By the start of the war, 60 ships were sailing from New Bedford alone, making that city the capital of the North American whaling industry, with Nantucket a close second.

Since whaling ships could not leave port during the Revolutionary War because of the high probability of being sunk by British ships, the New England whaling industry lay dormant from 1776 to 1784. But when the whaling fleet was rebuilt, the whalers found that the whale population had increased during the period of no hunting. By 1788, the New England fleet reached the same size as before the war. And by this time, whalers were venturing around Cape Horn into the Pacific Ocean.

The increased hunting had the obvious consequence. Whales were becoming increasingly scarce in the Atlantic. Further contributing to the problems of the whaling industry, Great Britain, in an effort to build its own whaling industry, imposed a tariff of 18 pounds sterling on each barrel of imported whale oil. So this tariff effectively eliminated British markets. France, however, had in the meantime become a good market, and the demand in the United States was increasing. As we would expect, ships became larger and larger, and whalers were now able to undertake voyages of up to three years.

At the beginning of the nineteenth century, the US whale-oil industry was hit with three blows. First, the French Revolution closed the French market. Then, in 1807, because of privateers, the Embargo Act prohibited whalers from leaving port. Finally, during the War of 1812, the British fleet practically destroyed the American whaling fleet.

But after the War of 1812, the whaling fleet began once more to increase rapidly. The number of ships (though not tonnage) peaked in 1846 when 729 American whaling ships were afloat. At the time, the price of sperm oil was 88 cents a barrel, and the price of whale oil was 33 cents a barrel, still relatively cheap. But cheap oil couldn't continue. High-volume whaling was rapidly depleting the raw material—the whales. The more whales killed, the fewer there were to reproduce. The birthrate declined dramatically. Spurred on by the declining whale population, the whaling ships sailed farther and farther from New England. Whaling became more and more efficient. But no matter how efficient the whalers were, the whales wouldn't cooperate by reproducing at a more rapid rate. Regardless of the efficiency of the whaling fleet, the whales just weren't there in the numbers they had been in the past.

By the 1840s, American whalers covered the sea. The Pacific was heavily hunted. And, of course, the heavy hunting clearly decreased the supply of whales even further. America was using up an important natural resource. And as in the case for all natural resources, when the supply of whales decreased, the price of whale oil began to increase.

By 1850, the price of sperm oil had risen to $1.20 a barrel and that of whale oil to 49 cents, increases of 36 and 48 percent, respectively, over a four-year period. (The increases in real terms were essentially the same since the price index remained practically unchanged over this period.) By 1856, the price of sperm oil had risen to $1.62, an increase of 84 percent over the ten-year period; the price of whale oil went to 80 cents, an increase of 143 percent over the same period. While the prices of sperm and other whale oil fell somewhat from 1856 until the beginning of the Civil War, the price in real terms fell only about 5 percent, since the price index declined over this period. In any case, in 1860 the price of oil was substantially above what it had been 20 years before.

As you would expect, induced by the rising price of oil, even more ships went to sea to hunt the whales. Total ship tonnage employed in whaling increased from 171,484 tons (543 ships) in 1850 to a peak of 208,299 tons in 1854. Tonnage remained above 200,000 tons as late as 1858, the year before the discovery of petroleum.

But increased hunting did not mean increased oil production for the whaling fleet. Although the price of oil remained relatively high and the whaling fleet remained large, whales grew increasingly scarce and more difficult to find. Just before the Civil War, there seemed to be no solution in sight. How could a country fight a war without lubricants? Whale and sperm oil was "essential," and we were about to run out of it.

Of course, there was a solution in sight. The solution was crude petroleum.

Petroleum quickly became not only superior to whale oil as a lubricant and illuminant but also cheaper.

Petroleum had been known since the dawn of time. People knew it could be used for caulking, and its medicinal properties were widely known early in the nineteenth century. And as we will show, by the late 1850s people knew how to use petroleum as an illuminant and lubricant. The problem was, people didn't know how to get it out of the ground in any significant quantities.

In the early part of the 1800s, no one really experimented with petroleum as an illuminant or lubricant, because whale and sperm oil was so cheap. There was no need for a substitute oil when cheap whale oil was readily available. But when the machine age began, the demand for lighting increased and whales became scarcer. Consequently, the price of whale oil rose, and people began to search for a suitable substitute. Crude petroleum was seen by some persons to have possibilities as a solution to the whale-oil crisis as early as 1853.

By 1859, A. C. Ferris was actively working with petroleum as an illuminant in New York. He was able to make fuel from oil and he greatly improved the kerosene lamp. But he had trouble finding a supply. He was importing oil from as far away as Canada, California, and even the East Indies. This oil, as did all other oil, came from seepages and from wells that were dug rather than drilled. Ferris himself tried unsuccessfully to dig for oil in the brine area of western Pennsylvania.

Even earlier, in 1853, George H. Bissell, a journalist and teacher, had become interested in "rock oil" when he became convinced that this oil would make an excellent illuminant. So convinced was he that he purchased land on Oil Creek in Pennsylvania, an area known for its frequent oil seepage. Bissell and some other men joined together in the Pennsylvania Oil Company and were soon selling oil from seepages on their property at $1.50 a gallon. In 1855, the company hired a famous scientist, Benjamin Silliman, to analyze the properties of oil. Silliman reported that oil would make an excellent illuminant and would also be a good lubricant.

Bissell and some of his partners planned to drill for oil in 1857 using methods that others used to drill for water and salt brine. But since some of the stockholders in the Pennsylvania Oil Company objected strenuously to the venture, Bissell had to reorganize the company as the Seneca Oil Company. It then hired Edwin L. Drake, a retired railroad conductor who was totally unfamiliar with the technology of drilling wells, to drill a well on Bissell's property near Titusville, Pennsylvania. Fortunately, Drake hired William Smith, an experienced well driller, to carry out the actual drilling. The crew consisted of Smith's two young sons. On August 27, 1859, late on a Sunday afternoon, this group struck oil, made history, and changed the world.

No civilization has collapsed because of the depletion of a resource.

Even before Bissell and Silliman began exploring the properties of oil, Samuel Kier of Tarentum, Pennsylvania, then the center of a large salt-well region, became interested in petroleum. In 1844, the salt-brine wells in the area began to produce a nuisance in the form of sludge, which had to be drained off onto the ground or into a canal. When the sludge caught fire one day, people recognized that this oil would burn. By 1846, many people were burning the oil in their lamps even though it was smokey and smelled bad. It did, however, give off a good light and the price was right—the stuff was free for the taking.

Kier, who was selling petroleum as a medicine, sent a sample to a chemist in Philadelphia, who reported that the oil would make a good illuminant and designed a still that might prove suitable for refining. Acting on these plans, Kier in 1854 built the first oil refinery in America in Pittsburgh, Pennsylvania. The refined oil was sold as a lighting oil. But the oil still stank when it was burned even though it did illuminate well. It also stank when being refined—so badly that the neighbors forced Pittsburgh's city officials to run both Kier and his refinery out of the city. Kier rebuilt the refinery outside the city and sold a considerable amount of lamp oil. He actually refined much of the oil from Drake's first well after 1859. Although he never could eliminate the bad odor, he did improve it. It was left to Silliman to develop the refining process further.

By 1859, there were 53 other refineries operating in the United States, but these refineries were designed to produce coal oil. The refining process, developed by Dr. James Young in Scotland, produced illuminants and lubricants from shale, peat, and coal. While some of these coal-oil refineries went out of business after the Pennsylvania oil field came in, many were transformed into petroleum refineries.

After Drake's well came in, many others began drilling in the area. Thousands of people were attracted to the region almost immediately. Very quickly, well after well came in. Less than one year after Drake's well hit in 1859, oil was selling for $10 a barrel. By 1861 it was down to *10 cents* a barrel. By late 1860, there were 15 refineries in the area; three years later there were 61. The world's first oil glut occurred. The price was so low that people all over the country were introduced to oil as a cheap, efficient, and reliable illuminant and lubricant.

The demands of a rapidly expanding manufacturing industry increased the demand for oil. Production leaped from a rate of 1,200 barrels a day in 1860 to more than 5,000 a day in 1861. On November 14, 1861, landowners in the Pennsylvania oil field met to organize and take measures to raise the price of oil. All business was to pass through a central authority. At the next meeting, the Oil Creek Association was formed to regulate production; and in January 1862 the organization set the price of oil at $4 a barrel, up $3.90 from 1861. The first OPEC had emerged. At first, they sold little oil. But by the end of 1862, because of the increased demand, the market price actually became $4 a barrel. The price steadily increased thereafter. It remained high, though, not because of the loosely formed cartel, which soon broke up, but because demand kept increasing as people became more familiar with the properties of oil. By the end of the Civil War, petroleum was the sixth most important export of the United States, ranking behind only gold, corn, tobacco, wheat, and flour.

What was happening in the whaling industry as the petroleum industry was expanding? During the Civil War, the American whaling fleet was virtually destroyed. There was a brief revival in whaling after the war when the price of whale oil went to $2.50 a gallon. The number of whaling ships recovered to 253, but the number of whales was simply too small; whales were just too hard to find. Whaling as a major industry was

dead by the 1870s. It died, just as the production of "whale-sized" automobiles died as a major industry a hundred years later, because of a resource crisis. But if whaling had peaked in tonnage and number of ships years before the first oil well came in, could the decline of whaling as a major industry be blamed on the discovery of petroleum?

Returning to the question we posed earlier, what can we conclude about the beginning of the age of petroleum? Did the discovery of petroleum destroy whaling or did petroleum arise as a result of an oil (whale-oil) crisis? Certainly, we can agree that the increased scarcity of whales drove up the price of the primary illuminant and lubricant in the United States and Europe, causing, one might say, the world's first oil crisis. However, we must also agree that, after the discovery that previously known drilling techniques would work for oil and after the development of refining, whaling as a major industry was doomed.

But what can we conclude about the hypothesis that the increased scarcity of whales was an important, possibly the most important, cause of the rise of petroleum as a major industry? We know that man had known about oil for centuries. People knew that oil burned and gave light many years before 1859. We also know that men were working on lamps to burn oil prior to that year. It was a relatively simple step to adapt existing lamps to facilitate the burning of refined petroleum, once the problem of odor was solved. Also, the methods used in coal-oil refineries were easily adaptable to petroleum refining. The technology was already available in 1859, as evidenced by the rapid building of refineries in the Titusville area almost immediately after oil was struck.

Finally, the drilling techniques were well known. The drilling methods used for brine water were easily adaptable to petroleum. Drake demonstrated that oil could be extracted from the ground at a substantial rate, just as Kier had earlier demonstrated that it could be refined in large quantities. But we must wonder: what if sperm whales had multiplied so prodigiously that whale oil remained at around 25 to 30 cents a gallon? Would people have been experimenting with petroleum refineries? With petroleum lamps? With methods to extract petroleum from the ground?

It's somewhat doubtful. And it would have been inefficient and wasteful to have done so. If whale oil had been 30 cents per gallon, few resources would have been expended to obtain petroleum.

Few people remember that petroleum itself is an "alternative energy source."

Whatever their contribution to mankind, the pioneers of the oil industry—Bissell, Kier, Ferris, Drake, Silliman, and their associates—were primarily, if not solely, interested in profits. Everything we read about the early days of the Pennsylvania (later the Seneca) Oil Company leads us to believe that the stockholders were mainly interested in turning a buck or two. They were continually arguing over money. There is strong reason to believe that if Drake had not struck oil when he did, or soon thereafter, the project would have been discontinued. Some of the stockholders did not even want to send him the last expense installment of $500. When the well hit, the company was really financially strapped. These men were profit seekers, not saints.

This is not to say that if the men of Seneca had abandoned the project others would not have struck oil soon. They would have. As evidenced by the onslaught of successful wells in the Titusville area after Drake struck oil, the technique was too simple to be delayed for very long. Certainly if Kier had not developed the first refinery, someone else would have. But the pioneers, as well as those who would have succeeded them had they quit or failed, were, or would have been, motivated by potential profits.

But would there have been these potential profits from innovation had whales remained plentiful and the price of whale oil low? Or what would potential profits from petroleum have been had whales become more plentiful and whale oil fallen in price? It doesn't appear likely that there would have been as great an incentive to drill for oil and experiment with refineries.

Certainly the petroleum pioneers were well aware of what was happening to the price of whale oil. From *Pennsylvania Petroleum*, we quote William H. Abbott, who built the first refinery in the Titusville area. In 1888 he wrote:

> *The first person to experiment with petroleum, and make a success at refining it, was Samuel M. Kier, of Pittsburgh. He procured his supply from the . . . wells at Tarentum. When refined he called it carbon oil. I purchased it from him, paying $1.25 a gallon by the barrel. This was far superior to the oil made at the time in Canfield, Ohio, from the fine channel coal; or to whale oil which cost from $1.75 to $2.25 a gallon. It was a fortunate circumstance that on the decline of the whale-fisheries, and particularly, after the destruction of our whaling fleet by the rebels, during the last year of the war, there should be at hand so cheap and abundant a substitute; thereby preventing the public generally from suffering any inconvenience from the loss of whale oil.*

Clearly, the introduction of petroleum was not simply a fortunate circumstance. The whale-oil crisis and the potentially greater crisis were certainly ended by the emergence of petroleum. Certainly there is evidence that the pioneers of petroleum were strongly motivated by profits, and the high prices of whale oil pointed to potentially high profits in petroleum. No one sent them to the oil fields of Pennsylvania to benefit humanity or to alleviate suffering. They went to benefit themselves and in doing so benefited mankind.

On that note, we find it interesting to see what Ida M. Tarbell wrote in the introduction to *The Birth of the Oil Industry* in 1938:

> *It is certain, however, the development could never have gone on at anything like the speed that it did except under the American system of free opportunity. Men did not wait to ask if they might go into the Oil Region: they went. They did not ask how to put down a well: they quickly took the processes which other men had developed for other purposes and adapted them to their purpose. Each man made his contribution.*
>
> *Taken as a whole, a truer exhibit of what must be expected of men working without other regulation than that they voluntarily give themselves is not to be found in our industrial history.* ◻

Charles Maurice and Charles Smithson are members of the economics faculty of Texas A & M University. They have published extensively in the area of resource economics, microeconomic theory, and regulation. This article is excerpted from their book The Doomsday Myth: 10,000 Years of Economic Crises, *just published by Hoover Institution Press (Stanford, Calif., 162 pp., $16.95).* *Copyright © 1984 by the Board of Trustees, Stanford University.*

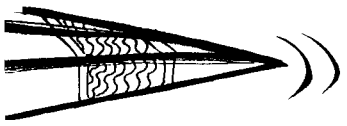
ANNUAL FINANCIAL SECTION

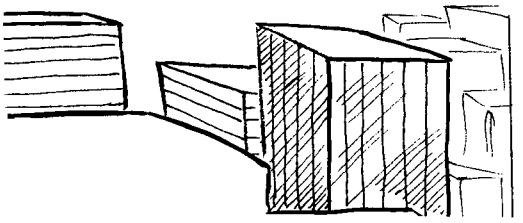
ILLUSTRATIONS BY MICHAEL BEICKEL

Snuff and Jam Jars

Reflections on investing

By William Rickenbacker





Among other things, I am an investor. My father started giving me $3,000 each year when I was 21 or so, and he dictated the stocks to be bought. Back in 1949 that was like shooting fish in a barrel. Came the Korean War, and I flew airplanes for Uncle Sam in Korea and elsewhere—and I saved $250 a month, which I sent to Dad, which he hived up, and which he used from time to time to buy more stocks.

The stocks prospered. After my four years in the Air Force, racking up 10 times as much pilot time as Dad ever got in the first go-round, I calculated that my savings and capital gains came to $25,000, and that was in 1955 dollars—enough to buy a house. In fact, my bride and our first son settled into a lovely house on a hill in Westchester County, rich man's territory, in 1958. It cost $31,000. In those days, a young man in four years could save and invest and get himself a house all his own, in splendid country.

Now the Rickenbackers are not rich. I have been able to live the life of a journalist—writing articles such as this for pay that comes to nothing after tax—because there are the vestiges of those early savings. And, of course, there are the inheritances (less than you'd think, for I stem from patriots, and you know all the Founding Fathers died in hock). I have manipulated it all with Irish pluck and not a small amount of downright bravado, and off at the end maybe a touch of grace.

As an aside, to illustrate that last effusion, let me tell you about my first airplane. I had wanted one ever since mustering out of the Air Force. I adore flying. But airplanes—the good ones—are expensive. I came across a stock at $10 and landed on it with both feet. I rode it up to $40, racking up enough to buy my gorgeous Turbo-Centurion, in 1966. (The stock later went to zero. Yes, zero.) My bride joined me to see the new acquisition. When she saw that the bird was plumed with white leather on the seats, she said, "Oh, you darling, you bought a plane to match my jacket."

For 20 years it has been like that, living by my wits, really, earning grocery money as a journalist but keeping the family together by manipulating a small sum until it's black and blue. Over the years I have also adopted a few clients—about 70 of them at last count—who ask me to give them advice about their investments, which I do for a fee. I don't hear too many complaints. I might add that as far as I know, I'm the only investment advisor in the world who does not set a minimum fee. My fee is one percent of principal per year on the first $100,000, and I'm just as happy to serve an investor with $3,000 as one with $3 million. In fact, I prefer the smaller accounts, because they have no place else to go. They're grateful, and they say so. I have two or three accounts in the million-dollar zone, and they're sheer trouble—nervous people, petulant, thankless. But they, too, pay (God bless the free market).

Investing *is* the way I live my life; it makes my life possible. Without it, without my skill at it (let's not be coy), I would be nine-to-five in somebody else's office, and my writing would be midnight stuff, weary, leftover, haggard, finally useless. In a spiritual sense, I invest in order to live.

First question, then: what does Bill Rickenbacker hold at this moment? My portfolio is neat and clean. Half of it is in oil companies, half in gold stocks.

Why oil? Because it was cheap: the major companies were for sale at five times earnings when I bought them a year or so ago. Texaco, I recall, had eight barrels of proven oil in the ground for each share of stock outstanding, and I bought the stock at $32—which meant I was buying oil for $4 a barrel (and those reserves were in the United States, not in Crazyville).

And why gold? Because it is going to be the janitor of the edifice of monetary disorder that has been erected in recent generations. When debts are not paid, when currencies are no longer exchangeable, when the United States becomes a "Third World" country with foreign debts exceeding its foreign assets (as will happen this year), when contracts drawn in terms of national currencies are abrogated in favor of gold—then metallic gold will be discovered once again as a substance that does not tell fibs, that does not deteriorate, that does not fluctuate in its physical quantity (the annual production of new gold is one or two percent of the inventory on hand in the world). The price of gold will rise.

The oil companies I've invested in are some I hope will prosper if the Near East explodes. I have Atlantic Richfield, Royal Dutch, Texaco (I had Exxon, too, last year, but sold it to pay for living expenses). The gold stocks, strictly for Mississippi river-boat gamblers, are in a bunch of Canadian companies with no history of revenues or profits.

But I may as well go into those Canadian companies in some detail in order to let you see how a person may proceed in these days of uncertainty. The Canadian companies are what are called junior exploration companies. They have acquired some acreage in promising country, they have retained a geologist, they are trying to raise money to drill holes so they can find out if their hunch is right—but they are mainly a lick and a promise. Or so you might think.

There are about five hundred of them. My partner, Austin Barker, former chief economist for Hornblower & Weeks, has been studying the gold-mining industry since the mid-1960s. He has research material on all the Canadians, and in the

last two episodes of upward movement in the gold price he noticed that the junior Canadian exploration stocks turned in truly glittering performances. In rough numbers, when the gold price doubled or trebled, the price of gold-mining stocks traded in New York City went up by a factor of six or eight, and the price of selected junior Canadian exploration companies went up by a factor of 20 or 30.

This bit of history led to the conclusion that it would be good to select some junior Canadians and lay them in, like a fine wine, before the next rise in the gold price. Studying the statistical and geological reports, Barker narrowed the list to 155 companies. He took this to friends in the field—geologists, engineers, Canadian financial analysts, executives of mining companies, all of whom are personal acquaintances he has made over the years—and asked them to give their say-so. The idea was to winnow the inside list even further, retaining those companies that earned the go-ahead from at least two outside experts in the field. There were 35 survivors of this test, and I invested equal dollar-amounts in each of those 35. If history repeats itself and one of these stocks goes up by a factor of 30, then the rest can fall almost to zero, and I shall break even. I think that's a pretty favorable situation.

We advised our clients—those of them who could tolerate the risk—to do the same. We have channeled several million dollars into stocks selling for pennies per share. If we are right (which we are), and if we pick the right time to sell (which we can't foresee), we'll extricate perhaps $100 million from the position. Unfortunately, it will belong almost entirely to our clients.

The international monetary condition is terminally ill, and our domestic condition is no better. Washington in its budgeting fits has become a blasphemy beyond the reach of the raillery of Rabelais or Mencken. The whole financial structure of the federal government will collapse in the next few years. What follows, no one knows. An investor must nevertheless make decisions, and I have made mine for my clients. I have invited them to take a strong position in gold stocks, and at the same time to dig in and take a position in the ongoing business of America.

Now that's not Boy Scout Jamboree talk. The ongoing business is no longer steel and rails and automobiles, but littler things such as checkbooks and snuff and jam jars. These are not romantic. You will not mention them at the next cocktail party in order to impress the fine lady in the golden gown. "I've invested in the company that makes Mason jars!" you will say, and she will move away.

Forget her, and take a look at Ball Corporation, maker of Mason jars. And then think a bit. Is there a reason why this company keeps reporting higher sales and profits every year? And is there a reason why you shouldn't enjoy that growth, ad infinitum, when you can buy it for a song?

Gold is going to be the janitor of the edifice of monetary disorder erected in recent generations.

Many of my clients now have 10 times their original investment in one stock, United States Tobacco. It has taken 10 years to multiply their investment by 10. The company makes snuff, chewing tobacco, pipe cleaners, and a few odds and ends sold at corner newsstands. In the most important part of its business it serves something like 95 percent of the market. But that market is only some 10 percent of the ultimate potential market, as the company sees it. The elbow room for growth is enormous, and the company is exploiting it with a national advertising campaign that has all the earmarks of success. And who is going to stand against these products? They sell for pennies, they sell forever, they give satisfaction. This is a prototype of my "Old Man River" stock.

The world is falling into little bits and pieces, but there will always be companies that perform useful services and manage to survive. Looking ahead, I see a good future for the oil companies, simply because nobody else knows how to produce oil. And a good future for the gold-mining companies, because that trade has become so complex that no newcomer may profitably intrude. And a good continuation of the old standby companies whom no one wishes to capsize—such long-term growing companies as Hershey, Heinz, Carnation, Consolidated Foods, Smucker. As I say, there's no romance here, but 10 years down the line you have yourself a pretty penny.

I am reminded of Madgie Baker, a school chum of my mother's from the old Grand Rapids days, around 1900. You will recall that Mr. Durant, a fancy gent from Boston, put General Motors together twice and lost his stock, but en route he told a few ladies that he thought GM might very well be the automobile manufacturer of the future. There came a time when the former president of GM, "Engine Charlie" Wilson, was grilled about his stock holdings—this was in the early 1950s, under Eisenhower—and it came out that Charlie had about three million dollars' worth of GM stock. Madgie was sitting at my side on the couch. She hallooed across the room to my mother, "Why, Adelaide, I have more than that!"

Any good little girl from Michigan who put her pennies into GM became a millionaire. Isn't that nice?

It should also be mentioned that more than 2,000 automobile-manufacturing ventures failed. Dad failed. That would have killed many a man, but he made a triumph out of it. He refused to declare bankruptcy. Between 1928 and 1937—the horrible "Depression"—he kept the debt alive, and at the end he paid it off, dollar for dollar. On the basis of *that*, he got the backing from Wall Street to buy Eastern Airlines when Al Sloan decided to peel it off from General Motors. But I wander.

Okay, invest. Interest rates will rise, so avoid bonds. Government will intrude, so avoid major industries. Currency will dwindle, so avoid cash. If you are between the ages of 20 and 60, consider such a portfolio as the following:

- one-third in oil producers and oilfield operators, both in the continental United States and nearby;
- one-third in gold producers or gold exploration stocks, depending on your cardiovascular reserves; and,
- one-third in Old Man River stocks such as those already mentioned—Ball, Smucker, US Tobacco, Hershey, Heinz, Carnation, Sonat, Albertson's, and Consolidated Foods.

And don't forget the most important ingredient—good luck! ◻

William Rickenbacker, son of World War I flying ace Eddie Rickenbacker, writes a financial column for Private Practice.

Subscribing to Success

How to figure out financial newsletters

By Mark Hulbert

If you were to walk in on the middle of a poker game and bet on which one of the players would eventually win, which would you choose? Should you automatically bet on the player with the highest pile of chips in front of him? Not necessarily. You would want to know whether he had won them all in one lucky round after losing in every other. If that were the case, you would probably not choose him but a player who had a more consistent record of less spectacular winnings each round. Considerations such as this would be crucial to making an intelligent bet about which of the players would win in the end.

Unless you enjoy losing sleep at nights, the same considerations are important in choosing an investment advisory newsletter. Yet, curiously enough, when it comes to choosing an investment strategy, many people do not consult their sensible instincts that would protect them so well in gambling. Instead of asking which advisor has the most consistent record, too many investors want to know which one has made the most money, period. Too few of them realize that winning the Irish Sweepstakes would provide them with larger winnings than virtually any found in the stock market, but that does not mean you should invest your company's pension in the Irish Sweepstakes.

Consistency and risk are two sides of the same coin: the more consistently a portfolio performs, the less risky it is. An understanding of the relationship between risk and return shows why consistency is a virtue. Of two portfolios that have performed similarly over a period of time, the one that did so with the least risk (that is, with the most consistency) would be the better bet for future performance. Conversely, of two portfolios with the same degree of risk (that is, with equal consistency), the one with an established record of greater performance would be the better bet for future performance. To choose otherwise in examples such as these would mean that you were needlessly sacrificing security or performance for nothing in return.

One measure of consistency and risk is the standard deviation, the measure of how far a portfolio deviates from its average performance level. A higher standard deviation indicates greater volatility; a lower reading, less.

To illustrate how this is measured, suppose that two newsletter portfolios each had average monthly gains of 10 percent in January and February. However, if the first newsletter made 5 percent in January and 15 percent in February, its standard deviation would be five. And suppose that the second portfolio made 10 percent in January and 10 percent in February. Its standard deviation would be zero—no deviation from the monthly average, hence no volatility and far less risk than the first portfolio.

The table on the next two pages ranks portfolios recommended by some of the better-known newsletters according to the standard deviations of their monthly performances from January 1983 through March 1984. (In those cases where a specific model portfolio wasn't published by the newsletter, I have devised a portfolio for it based on the newsletter's recommendations and using methodology formulated by the *Hulbert Financial Digest*.) Those at the top of the list—the ones with the lowest standard deviations—were the least risky and the ones at the bottom were the most risky.

In addition, the average monthly performance of each portfolio is listed. With this data, one can see which news-

letters' portfolios at each risk level made the most money.

At the top of the list, for example, is the "T-bill only" portfolio, indicating how much profit and how much risk would have been associated with investing merely in Treasury bills from January 1983 to March 1984. The very low standard deviation shows that such a strategy entailed very little risk, and the monthly average performance of 0.73 percent is known as the "riskless rate of return." At the bottom of the list, in contrast, are several portfolios made up of options—and their very high standard deviations suggest the riskiness of investing in options.

A cursory overview of the list is all that is needed to discover that newsletters vary widely in their ability to exploit risk efficiently. If all newsletters were equally efficient in this respect, then the average monthly performance for their portfolios would grow just as their risk levels (that is, their standard deviations) grew. But in fact some of the portfolios with the most risk actually lost money—and fewer made even as much money as a portfolio parked in Treasury bills, with the riskless rate of return.

So how can you use this information on portfolios to help you select a newsletter? First, you can eliminate many portfolios from the list of those you might subscribe to. For instance, if a portfolio makes the same amount as another but it entails greater risk, it can be crossed off. For an example from the table, compare the *High Technology Investments* investors' portfolio (24) and *New Issues* (59). Both have had the same average monthly performances—0.12 percent—but different standard deviations. *High Technology Investments*' standard deviation is 3.88 and *New Issues*' is 9.068. Thus, the former newsletter would be preferable.

In addition, if a portfolio makes less money than another with the same risk, it too can be crossed off. Compare the *Granville Market Letter* (30) and *Professional Investor*'s OTC portfolio (31). Both have similar risk levels, but the *Granville Market Letter* portfolio lost an average of 1.31 percent each month while *Professional Investor*'s OTC portfolio made an average of 1.58 percent each month during the same period. In this way you could eventually narrow the list of newsletters down to those whose performance and risk measures roughly corresponded.

You still would not have narrowed down your list of potential letters to just

Financial Newsletters: Ranking the Risks

Newsletter/Portfolio	Standard Deviation	Monthly Mean
1. Treasury Bills Portfolio	0.045	0.73%
2. Peter Dag Investment Letter	0.995	0.66
3. Kinsman's Low-Risk Advisory	1.289	0.58
4. Heim Investment Letter	1.385	0.32
5. Switch Fund Advisory	2.169	1.08
6. Dines Letter—List #3, Income Stocks	2.222	1.05
7. Growth Fund Guide—Quality Growth Funds	2.269	1.19
8. High Technology Investments—Traders' Portfolio	2.334	-1.48
9. Dow Theory Forecasts—Income Stocks	2.375	1.08
10. United Business & Investment Reports—Income Stocks	2.488	0.57
11. Dessauer's Journal	2.571	1.26
12. Harry Browne's Special Reports—Variable Portfolio	2.857	0.59
13. Nicholson Report—Stocks for Investors	2.966	-1.23
14. Addison Report—Conservative Stocks	3.113	1.46
15. Charted Course—Model Portfolio	3.174	0.43
16. United Business & Investment Reports—Growth Stocks	3.222	-0.27
17. Dow Theory Letters	3.235	-0.58
18. Professional Tape Reader—Model Portfolio	3.253	-1.31
19. Nicholson Report—Stocks for Traders	3.306	-1.32
20. Professional Investor—NYSE Scan	3.415	0.39
21. Dow Theory Forecasts—Investment Stocks	3.538	0.73
22. Systems & Forecasts	3.687	0.40
23. Growth Fund Guide—Growth Funds	3.760	1.07
24. High Technology Investments—Stocks for Investors	3.880	0.12
25. Dow Theory Forecasts—Growth Guides	3.950	0.41
26. Growth Stock Outlook—Supervised Portfolio	4.015	1.61
27. Outlook—Income Stocks	4.135	0.93
28. Dow Theory Forecasts—Speculative Stocks	4.186	0.15
29. Zweig Forecast	4.187	0.09
30. Granville Market Letter—Aggressive Traders Portfolio	4.307	-1.31
31. Professional Investor—OTC Scan	4.336	1.58
32. Growth Fund Guide—Special Situations Funds	4.371	1.26
33. Outlook—Foundation Stocks	4.435	0.24
34. Outlook—Growth Stocks	4.447	0.19
35. Market Logic—Master Portfolio	4.545	1.32
36. Chartist—Actual Cash Account	4.891	0.74
37. Outlook—Speculative Stocks	4.896	0.73

You can assess the relative risks and rewards of recommended portfolios by comparing among portfolios the standard deviation—how much deviation there is in the portfolio's average performance level—and the monthly mean gain. I have calculated these measures (for the period January 1983 through March 1984) for 70 portfolios recommended by various financial newsletters. The portfolios are listed in order of their standard deviations.

38. Professional Investor—AMEX Scan	5.098	2.47
39. United Business & Investment Reports—Cyclical Stocks	5.342	-0.43
40. Telephone Switch Newsletter—Equity/Cash Switch Plan	5.480	1.10
41. Zweig Performance Ratings	5.663	0.33
42. Growth Fund Guide—Aggressive Growth Funds	5.684	0.57
43. Indicator Digest	5.936	0.28
44. Value Line Investment Survey—Group I Stocks	5.953	1.24
45. Green's Commodity Market Comments	6.207	2.25
46. Professional Timing Service	6.254	0.44
47. Addison Report—Speculative Stocks	6.309	4.16
48. Int'l Harry Schultz Letter—U.S. Stocks Portfolio	6.327	0.54
49. Professional Investor—Investment Grade Stocks	6.335	-1.64
50. California Technology Stock Letter—Model Portfolio	6.521	-1.04
51. Dines Letter—List #1, Good Grade Stocks	6.634	3.15
52. Telephone Switch Letter—Gold/Cash/Equities Switch Plan	6.787	-0.01
53. Chartist—Traders' Stocks	7.124	0.53
54. Cabot Market Letter—Model Portfolio	7.528	-0.94
55. Speculator's Selected Stocks of the Week	8.256	0.16
56. Prudent Speculator—Actual Portfolio	8.552	3.41
57. New Issue Investor	8.590	-0.50
58. Value Line OTC Special Situations Survey	8.736	0.53
59. New Issues	9.068	0.12
60. RHM Survey of Warrants, Options, & Low Priced Stocks	9.701	1.15
61. Howard Ruff's Financial Survival Report	10.049	-0.53
62. Dines Letter—List #4, Growth Stocks	10.521	4.75
63. Holt Investment Survey	10.824	0.07
64. Dines Letter—List #5, Precious Metals Stocks	11.492	2.48
65. Tony Henfrey's Gold Letter—Long Term Portfolio	11.447	2.72
66. Successful Options Investing	20.977	-1.80
67. Dines Letter—List #2, Speculative Stocks	22.174	6.63
68. Dines Letter—List #6, Short-Term Trading Portfolio	27.493	13.43
69. Option Advisor—Aggressive Portfolio	35.323	-10.24
70. Option Advisor—Conservative	36.098	-5.86

one, however. Why? Because no amount of performance-based research can decide for you how much risk you are willing to tolerate. That decision is yours alone. Are you investing assets that you could afford to lose? If so, you would look for a newsletter with high risk levels. However, if you are investing assets that you cannot afford to lose and are looking for income more than for capital gains, you should look for a strategy that incurs low risk.

This is why it is misleading to ask which advisor is the best. Different newsletters may be equally good in different areas, but *you* have to choose which area. Performance-based research can only help you choose which newsletter is the best once your own investment goals have been chosen.

Let me give an example from the table. If you look at the six portfolios recommended by the *Dines Letter* (6, 51, 62, 64, 67, and 68), only one of them—*Dines*'s list 5, of precious metals stocks (64)—would be crossed off the list by the analysis discussed earlier. This particular portfolio has higher risk and lower performance than some of *Dines*'s other portfolios. The other five would remain as viable selections, so the choice among them would be yours. If you were looking for income and wanted to incur little risk, you could choose *Dines*'s list 3, in the sixth position on the table. Or you could select one of the other remaining *Dines* portfolios, each of which would entail greater risks but would also have records of greater performance. *Dines*'s short-term trading portfolio, which has included mostly options over the past year or so, would be your choice among the five if you were going for the greatest risk.

These are some of the major considerations you should keep in mind when choosing among various investment newsletters. The next time you receive a mailing advertisement promising thousands of percent profit in your spare time (I receive literally hundreds of these ads every year), do not ignore your instincts that would protect you against similar claims in a gambling casino. Remember that even the winner of the Irish Sweepstakes easily could make the same sort of pitch and should be ignored by the prudent investor. After all, making money requires rational, not emotional, analysis. ◻

Mark Hulbert is editor of the Washington-based Hulbert Financial Digest.

Profiting from Politics

Keeping an eye on Washington can mean money in your pockets.

By James Dale Davidson

Surprisingly few understand the intimate links between investment profits and political decisions. Not that profiting is hard to grasp. But politics is. All but the most sophisticated investors are unlikely to see the extent to which most investment decisions incorporate political judgments—or are subject to being subverted by political decisions of one sort or another.

No question about it, by gaining a better understanding of politics, investors can improve their investment performance. But they can do more than that. Investors can turn the intricacies of politics to their advantage as part of a new approach to the fundamentals of investment. What I have in mind is a rational and systematic approach that can enable investors to recognize opportunities and avoid investment hazards—before they are generally understood by the marginal player in the market. In short, investors can profit from politics.

This can be done without actually becoming a politician. No need to turn into a cigar-chewing rascal of the sort who grows rich, Boss Tweed style, on inflated paving contracts. One merely needs to notice who is gaining or losing political windfalls—and take the indicated action in stock and commodity markets.

In an ideal, textbook world of free-market investment transactions, political insight and inside political information would be of little value, because politics would be at a minimum. The economy would be stable. That means stable money. One could look forward, for years and even decades, with confidence that the unit of exchange and the interest rate would not fluctuate wildly. Mad dictators throughout the globe, not to mention not-so-mad presidents and kings, could not put major banks into receivership simply by refusing to pay their countries' bank debts. In a better world, wars and schemes of governments would not choke off the free movement of goods, creating artificial shortages in some markets and surpluses in others.

Alas, there is a difference between what ought to be and what is. That difference is so great that no sane investor can expect to profit by overlooking it. But just how much information about political interventions is sufficient? And how can investors systematically and rationally get that information and process it?

Most investors probably have never consciously thought about the link between investment opportunities and politics. Nonetheless, investors who are successful, on a basis other than chance alone, must operate on at least some minimal political insights.

Most investors, for example, have learned that interest rates matter. They have also learned that Federal Reserve actions have some effect or other on interest rates. If interest rates go up, they may sell their stocks—a simple political insight.

Another simple political insight was put to profitable use during the last decade. Many investors bet that fiat money would depreciate faster than gold. That bet incorporated a great many assumptions about how the political system would operate and how markets would respond. It was by no means an exclusive insight. Anyone who had read any of the classical economists, even one so "perverse" as Karl Marx, would have been well warned that inflating paper money will soon cause it to decline in value relative to gold.

Investment in gold followed what I call a "library insight." An investor could have mastered it just as well by reading the classics as by intimately following current events. Indeed, what one could learn in the library might have been more important than keeping abreast of current events. And it was also rewarding, at least in some circumstances. Gold was a great buy at $35 per ounce, or subsequently at $650—but not at $800.

That seems to me to be a crucial point. Wherever books are kept, one can read about general truths and even general falsehoods. But what one finds is liable to bear the same relation to making money now as a stopped clock has to telling time: it may be true on occasion, but one still needs additional information to determine on which occasion.

Like the stopped clock, the insight upon which gold was a profitable hedge against political developments could not be followed at all times. And, by the way, that much could have been surmised in the library. But many of the people who bought gold were busy, probably too busy to read through the other thoughts of the classical economists. And they stopped short of gaining a sophisticated understanding of the business cycle, much less of the political developments that obliged the authorities to curtail monetary growth.

Most gold investors who were trading

on this sort of simple political insight probably did so because of the power of example. They saw their friends making money early on, and those friends then became the advisors of later investors. It was like the stock market in the 1950s. People just bought to hold—a simple call, which for a long time was right. Buyers could have come in at practically any hour of any day for years and still have made money buying gold until about 1980.

It is interesting that investment newsletters proliferated during the '70s, the very period when clinging to one simple political insight was profitable. This implies several things about information and the market.

For one thing, the fact that a simple insight into political economy was for a decade a highly profitable one conferred an appearance of wisdom on those who advertised it. In some cases, this was deserved. But in many more, it was not. Complete ignoramuses, as well as a few crooks, were able to enthrall a following by propagating any lunacy they pleased, so long as it included the magic words "Buy gold." Obviously irrational claims found a level of acceptance that tells us a lot about the way many investors process information. They don't do it very well.

This points to an excellent potential for profit, which more savvy investors can take advantage of if they are able to get sound information and process it in a rational way. As the gold example shows, it may take years for the market to completely assimilate a major political discontinuity. Years. The advent of pure fiat money on an international scale was a terrifically confusing development that even the brightest people were slow to understand. And the market responded in a way I have come to believe is typical. It produced a "cartoon effect."

I have taken the name for this pervasive phenomenon from something every child has noticed on Saturday morning between Cookie Krisps commercials. It happens every time the cartoon animal walks unawares off the cliff. He just hangs there, rather than obeying Sir Isaac's laws. Eventually, he realizes what's what and gets around to falling. Participants in markets behave in a similar fashion.

There is an economic theory, called the efficient-market hypothesis, which supposes that the price of the moment already incorporates every datum known to anybody; no "false" prices exist as a result of poor information or poor computational abilities. I believe this is wrong. Though markets do tend toward efficiency, this is only a tendency. It is not magic. Wherever circumstances arise in which knowledge varies radically from person to person, and many participants will determine the outcome (price), those with the best information about the fundamentals will have more than a random chance of getting the price movement right.

A study by the *Hulbert Financial Digest* has shown that the prices of stocks seem to respond sluggishly to newsletter recommendations. A single recommendation often left a stock in a position to gain by further notice. As whatever information made the stock attractive was disseminated, that stock could be recommended again and still outperform the market. Indeed, stocks recommended by three newsletters tended to outperform those recommended by two. Only when four newsletters had jumped on the bandwagon was the advantage noticed in the original buy analysis completely discounted, with performance falling. Stocks recommended by five newsletters performed decidedly worse, usually faring more poorly than shares in the same group that had never been recommended at all. That should greatly encourage

"And the regulators said. . ."

those who would try to profit from inside political information, since it demonstrates how slowly the market often reacts to shared insights.

Points of discontinuity, where there are abrupt breaks in trend, offer the greatest chances for profit. These discontinuities account for dramatic price movements. And the fact that discontinuities are not anticipated—and thus discounted in advance—is really additional evidence against the efficient-market hypothesis. Many of the changes that affect prices are foreseeable—as indeed the rise of the price of gold was foreseeable. But they are seen at first only by a few people, sometimes because those people are the only ones in a position to know.

Of course, there are all kinds of discontinuities, but political actions must rank with acts of nature as the largest influences affecting markets. Nothing else comes close. That is not to say that changes of taste cannot be abrupt. When Clark Gable bared his chest in *It Happened One Night*, undershirt sales in the United States fell by 50 percent within the year. And the computer industry clearly illustrates that changes in technology can sometimes arise with startling swiftness. Even where such changes are gradual, as they usually are, markets may react suddenly.

In contrast to changes in taste, political decisions are characteristically abrupt—precisely because they involve "interventions" to halt or sidetrack the outcome that would be generated by market forces working alone. Decisions made by bureaucracies or executive fiat need not be gradual. They can be completely arbitrary—like fire, floods, and bad weather.

Unlike acts of God, however, acts of politicians have comprehensible motives, making them easier to understand—and predict. If the market for such information were more highly developed, a great many events that now take investors by surprise would be more readily understood. To a degree, this development is already under way, as political risks have increased relative to natural hazards as influential factors in international investment and trade.

Insurance companies are today hiring political-risk analysts to calculate the probability that, for example, the banana plantation will be expropriated. Through much study, along with trial and error, political-risk analysts are becoming increasingly knowledgeable about the factors contributing to abrupt political changes.

The same type of information hunt has been intensifying at the domestic level for the past 15 years. As more sweeping and detailed interventions have come out of Washington, sophisticated business people have been obliged to learn what is going on in far greater detail than one can get in the mass media. Newsletters reporting on individual bureaucracies now constitute a substantial industry in Washington. But the use of such newsletters has been almost exclusively confined to company management, lawyers, bureaucrats, and a few very rich investment specialists.

For $575 a year, one can read McGraw-Hill's *Inside FERC*. For $535, one can get *Inside EPA* from Inside Washington Publishers, Inc. Other equally expensive and highly detailed newsletters discuss, among other things, "Section 223(f)" housing projects and the Community Development Small Cities Program, securities regulation, federal contracts, and Federal Communications Commission (FCC) rulings. And for the bargain price of just $325, there is even the *Noise Regulation Reporter*.

Together, these publications and hundreds like them are brimming with detail about political interventions. If one read them all, one would know more about what government is doing to alter the economy than any other person, including government officials themselves. And these decisions are not trivial. Barely a bureaucracy in Washington does not have the power to bankrupt someone—or make someone else a fortune, if he merely fills out the proper forms in triplicate. The decisions made in any given week will cause billions to change hands. Billions!

Clearly, information about who will gain or lose billions is of great potential value to investors. If the lead-additive industry is likely to be wiped out by an impending EPA regulation, this will not only interest environmentalists and company management. It will also be reflected in the stock market and probably the commodity market. Those who got early warning could sell short and pocket a handsome profit.

What continues to astonish me is that newsletters oriented toward investors make almost no use of this kind of detailed, inside information. From the point of view of someone trying to make money, political discontinuities are an untapped gold mine. Yet they are allowed to lie there, like a vast, unexplored vein of ore, while most newsletter editors and readers sift the same familiar ground over and over.

I mention newsletters because they are the main source from which this inside political information could be obtained. It certainly would not be available from the mass media. Most Americans—indeed, most investors—don't even know what FERC (the Federal Energy Regulatory Commission) is, let alone what it does. Yet its decisions about energy regulation can have far-reaching capitalization effects. Only where the largest companies and great controversies are involved will any of this join the reports from Lebanon and shots of Gary Hart's photogenic face on the nightly news.

Of the thousands of financial newsletters, only a few place enough regular emphasis on political coverage to even feature it in their advertising. Of course, almost all drift into discussion of political discontinuities—with predictions about what the Federal Reserve will do or how a planned defense build-up will be good for Lockheed. Beyond that sort of occasional mention, only a handful of publications make political coverage a major feature of analysis. And among that handful, the analysis of politics tends to be superficial, conspiratorial in tone, and even laughable in its lack of sophistication and overt political prejudices.

So when I talk about political information that could be useful to investors, I'm not talking about the sort of financial newsletter that would feature a headline story such as this: "One of the Satanic Signs of the New Age Movement Exists Right on the Dollar Bill." I'm not talking about explanations of what the news reported in various newspapers "really means"— namely, that Bilderbergers, the Trilateral Commission, "Insiders," etc., are doing the world dirty. From such newsletters, for example, we get

Political actions must rank with acts of nature as the largest influences affecting markets.

the following kind of analysis in the wake of the Kissinger Commission's policy recommendations regarding Central America:

> *Just as the Trilateralists organized the fall of Iran during the Carter Administration, the Reagan years will mark the fall of El Salvador. . . . Evidence continues to mount that Mexico is to be used as an armed camp for training peasants to fight a terrorist war in the Southern United States.*

The punch line for the investor is that property along the border will be threatened. Presumably, this implies lower land prices from San Diego to Brownsville.

Such may be enjoyable for anyone who believes that Satanic conspiracies hold the key to micropolitical events. But this kind of "political information" will not be of much use to investors.

Nor are they likely to benefit from a variation on the standard conspiracy theory, which identifies firms owned or controlled by leading financiers thought to be part of the international banking elite. This is to enable readers to cash in on the schemes by buying shares of the "Insider" (always with a capital "I") companies. The reason I doubt this sort of approach can be very useful is that every major firm is in some sense an elite enterprise. Without careful analysis of political maneuvering that is actually taking place, the investor has no way to choose among them.

But when I talk about useful political information, I'm not talking either about analyses claiming to utilize secret reports from the world's intelligence services, filtered through retired agents. Reliance on so-called secret reports has several shortcomings. Much information culled from intelligence reports is already public; one could just as readily obtain the information from the *Wall Street Journal*. But even if the information is still secret, how is the reader to know that it is accurate or that its interpretation is correct? And if others don't already know it and it's accurate, what are its implications for investment opportunities?

No, what would really be useful to investors, and what the run-of-the-mill financial newsletter doesn't provide even when it claims to offer political coverage, is analysis of investment possibilities from a strictly political perspective, with an economic rather than a conspiratorial view of politics. I'm talking about micropolitical reports of exactly the sort found in the specialized "inside Washington" newsletters—with the difference that the reader of such a financial newsletter would also be provided with the *names* of companies that will benefit or be harmed by pending government interventions or political upheavals. The resulting investment intelligence should be quite as useful to a member of the Trilateral Commission as to a member of the Birch Society.

Thus, when the Kissinger Commission issued its recommendations, one would not be led to suspect guerrilla war in South Texas but rather to anticipate that Central American arms purchases were likely to rise. Checks with Defense experts and Central American sources would produce some fairly clear conclusions about what type of expenditures would be made and which firms stood to gain. And the names of these firms would be reported.

To give another example, one would find in such a newsletter a detailed analysis of a proposed change in FCC policy by which Zenith Radio Corporation would stand to gain greatly. If the Federal Communications Commission were to issue a technology standard for stereo TV that required that Zenith designs be employed by everyone in the US market and were to mandate use of noise reduction systems made by the British firm DBX, the names of all the companies (in this case, 17) that seem likely to gain or lose from some consequences of the ruling would be spelled out.

To use such political information to best advantage, an investor should chart the price movements of the firms and commodities likely to be affected. If the price charts do not show substantial divergence from trend charts for the market as a whole, it is a fair guess that the information has not been discounted. An investment based on it would probably be a safe bet—if the likely capitalization effect could be significant enough to show up in the price.

A fully comprehensive political investment service would attempt to isolate "pure plays" from inside information. For example, the Environmental Protection Agency recently prepared a cost-benefit study suggesting that leaded gasoline should be banned immediately rather than phased out over the rest of this decade. This implies trouble for firms that produce lead (70 percent of which is consumed in auto use) and those converting lead into additive form. Basically, only three companies do that—Ethyl, Nalco Chemical, and Du Pont. To follow through on the most comprehensive and rational basis, one would want to know not only how the shares of these companies had been behaving over the recent past in comparison to the market as a whole (to see whether the information had been discounted). One would also need to see how heavily capitalized each company was and what percentage of its business was derived from sales of lead additive.

Barely a bureaucracy in Washington does not have the power to bankrupt someone – or make someone else a fortune.

Undoubtedly, Du Pont is not going to go broke because of a ban on leaded gasoline. But what about Ethyl or Nalco Chemical? A close look at their business mix would show which of the two firms (if either) would be a candidate for a short sale. One would also want to run the same numbers on Misacro, a lead producer, and Philbro-Salamon, parent of St. Joseph's Lead.

Almost all of these inside tidbits could be isolated into one or more obvious plays in stock or commodity markets. If the evidence supports my thesis that political events do influence investment outcomes and that these outcomes can be reasonably predicted, this could mean a brand-new approach to investment—an approach based not on the fundamentals of the firm (in a direct sense) but on political fundamentals. For investors who are sophisticated and rational enough to pursue this approach, it may be possible to earn high profits by violating Bismarck's famous adage—"No people should know how their laws and sausages are made." Those with the stomach for it can do quite well by forgetting the sausages and concentrating on the laws. ◻

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How to Avoid Tarnished Dealers

There's a lot of gold and silver dealers in them there hills —but some of them play dirty.

By Daniel Rosenthal

I learned the news the morning of September 29 last year while at a suburban Los Angeles airport. Alan Saxon, the president of Bullion Reserve of North America, had committed suicide. Bullion Reserve had already closed.

I felt sick at Saxon's death; the man's personal charisma had affected me deeply. But his house of cards had collapsed. I knew his company would never reopen without first going through the bankruptcy court. The only questions remaining were how many investors had been victimized by this fraud and for how much (first reports were that between $57 million and $61 million owed to investors was missing, and it may end up to be much more).

I couldn't help remembering my ratings of 24 leading silver and gold dealers published only seven months earlier in *Futures* magazine. I had been on the mark when I gave negative ratings ("we do not recommend you buy from this firm," I had written) to International Gold Bullion Exchange (IGBE) and United Precious Metals (UPM), both of which subsequently went bankrupt. But I thought Bullion Reserve was very different. A "young, fast-growing, aggressive" firm, I called it. "Good dollar cost-averaging program. Well-conceived double removed storage programs...." Something had gone terribly wrong.

Darrell Jobman, the editor of *Futures*, asked me to write a follow-up article for publication last February that would answer these questions: What was there about Bullion Reserve that allowed them to fool me? What eventually tipped me off to them and led me to withdraw my recommendation before they went under? How did I know in the first place to warn investors away from IGBE and UPM? What can the average investor learn from this that will help him spot a dealer to avoid?

First, let's answer the question, How did I know to warn investors about IGBE and UPM? That's the easiest. IGBE and UPM were offering to sell you krugerrands "at spot," that is, the wholesale price for gold in the cash market.

Now, when you buy a krugerrand, that coin has moved from Intergold, the marketing arm of the South African Chamber of Mines, to one of three primary wholesalers (J. Aron, Mocatta, or Republic); from them to the secondary wholesalers like Deak-Perera, Manfra, Tordella & Brooks (MTB), and Western Federal; and from them, either to retailers or directly to you. The markup charged to the primary wholesalers is generally at or around 3 percent. They in turn mark up their krugerrands anywhere from 0.5 percent to 1 percent. Thus, by the time secondary wholesalers or retailers get a krugerrand for you, they've typically paid 3.75 percent or more over spot.

So when IGBE and UPM offered to sell krugerrands at spot, they were not just undercutting their competition dramatically. They were actually selling krugerrands for 3.75 percent less than what Deak-Perera—or even they themselves—could *buy* them for. Clearly something had to be rotten. The at-spot offer was earmarked for aficionados of the tooth fairy.

What was there about Bullion Reserve that allowed them to fool me? What eventually tipped me off to them?

Another offer of the tooth-fairy genre was a "free" Apple II computer that Krugerrands Unlimited offered with a purchase of 100 krugerrands. The only problem with this munificent offer was that the firm's phone was disconnected before we could finish evaluating it.

The case of Bullion Reserve was not really so transparent. Alan Saxon, the late president, first approached the *Silver & Gold Report*, which I edit, early in 1982. He wrote a very thoughtful letter discussing client safeguards and possible loopholes in the ones we advocated. In subsequent conversations and correspondence, Saxon continued his thoughtful input and, needless to say, spoke glowingly and convincingly of his own firm's storage program. The client protections he offered included:

- a third-party trustee to store all client silver and gold;
- clear physical separation of client silver and gold from the firm's own metal, with appropriate markings;
- ounce-for-ounce, coin-for-coin, bar-for-bar coverage of metal owed to clients; and,
- 100 percent coverage for clients against possible loss of silver and gold from all normal hazards.

But unlike a lot of dealers, Saxon didn't just talk about his firm's program. He put it in writing for us. The attractiveness of the program, along with Saxon's willingness to spell it out in black and white, was the major point in Bullion Reserve's favor.

Next, and even more convincing to us, was Saxon's reaction when I asked him to send us "copies of the segregation agreement, insurance policies, and outside (third party) verifications—such as an audit—that the silver and gold is there." Saxon said, "Absolutely! It's readily available. I'll be happy to."

The third and last convincing point was Bullion Reserve's track record with subscribers to the *Silver & Gold Report*. It was excellent. We received far more laudatory letters than complaints. And when we did get a complaint and contacted the firm, they'd have it corrected at once. Sometimes they'd tell us that it had already been handled. When we followed up with our subscriber to confirm that the problem was indeed solved, we always learned that it had been. So in terms of customer service, we had to give Bullion Reserve high marks.

All this was the situation in December 1982, when I was putting the February 1983 dealer-ratings for *Futures* magazine to bed. I was awaiting the documentation for Bullion Reserve's policies, which Saxon had promised to provide. But December and January came and went, and then February, and still no documentation. So I phoned Saxon and said, "Alan, you probably forgot about the documentation. I know you're busy, but would you take care of it?"

He told me, "Yes, yes, you're right. It slipped through the cracks. I'll get on it right away." And that's the way it went. He'd put me off; I'd phone again; and he'd put me off.

Now, during all this time, the great bulk of subscriber correspondence about Bullion Reserve remained very positive. And our own blind purchases from them had been handled well. Nonetheless, their failure to send the independent verification of their storage claims Saxon had promised was making us more and more nervous. So when my book *The Insider's Guide to Buying Silver & Gold* was published in May 1983, it contained a mild warning about Bullion Reserve. It said simply that we hadn't received most of the promised documentation and that the little we had received was unconvincing.

What to Do Before You Deal

For people contemplating investment in silver or gold, I have devised a checklist of questions to ask a dealer. It should give you a reading of the firm's integrity and financial health—and it should also give you what you need to spot an unsound dealer before you buy.

1. How long has your company been in business?
☐ Over six years ☐ Three to six years ☐ One to three years ☐ Less than one year
This seemingly innocuous question actually tells you quite a lot. Clearly, if a company has been in business for six years, it's a far better risk than if the answer is six months. But more important, if the firm has been in existence at least since the beginning of 1980, it's survived the greatest bear market in the history of silver and gold prices. The dealer's been through the "valley of the shadow of death" and survived. In this case, there can certainly be some presumption of the dealer's financial solidity.

On the other hand, don't let the newness of a company totally discourage you if the other signs are good. Today, in the wake of three major bankruptcies, some new companies are stressing investor safeguards that outweigh any disadvantage of newness.

2. What is the net worth of your company?
☐ Over $5 million ☐ $1-$5 million ☐ $200,000 to $1 million ☐ 0-$200,000 ☐ Negative
If the company has negative net worth, you probably don't want to do business with it except by sight drafts. If your funds are commingled with its funds, you may be out 10 cents, 50 cents, or even 90 cents on the dollar as soon as the company gets your money.

3. What will you do with my funds before you ship my silver and gold? Deposit them in:
☐ A trust/escrow account where my funds will be released to you only upon proof of shipment?
☐ A separate segregated account where they will be held as investor funds apart from company funds?
☐ A general company checking account where they will be commingled with company funds?
The last two arrangements, commingled and segregated accounts, are the most common. Unfortunately, the safest arrangement, a trust, is very rare.

A commingled account leaves you vulnerable to bankruptcy or fraud until your silver and gold is shipped. A segregated account for investor funds can be a good shield against dealer bankruptcy, but it's no protection against dealer fraud. (I believe that's what happened, at least to some investors, in the Bullion Reserve bankruptcy.) A good trust arrangement can protect against both fraud and bankruptcy. But if the trustee is an employee of the dealer, much of your protection against fraud is open to question. So if the dealer answers "trust/escrow" to the above question, ask:
Who is the trustee?
☐ A bank? ☐ An independent attorney? ☐ An employee of your company? ☐ Other? (please specify)

4. How long will it be before your company ships my metal if I send you a personal check?
☐ Under nine business days ☐ Nine to fifteen business days ☐ Over fifteen business days
Under nine business days indicates the dealer's not waiting long enough for the check to clear. This is a danger sign. Nine to 15 business days is reasonable. Over 15 business days is unreasonable, unless the check is drawn on an out-of-the-way distant bank.

5. How long after receipt of good funds will you ship my silver and gold?
☐ One business day ☐ Two to three ☐ Four to five ☐ Six to ten ☐ Longer
There is a direct correlation between safety and shipping time. Two days is twice as risky as one day; four days redoubles your risk; and eight days doubles, redoubles, and redoubles your risk again.

Generally speaking, one or two business days to ship is quite good. Few dealers offer such fast service. One week is common; two weeks is the longest acceptable period.

One problem is that dealers may promise and have a track record of fast delivery. But if their business turns sour, delivery time may lengthen. You probably won't know about it until your silver and gold does not arrive within the promised time. If this happens to you, phone the *president* of the company and request immediate delivery. Follow up that same day, if possible, with a letter reiterating your request. Send it by registered mail with a return receipt requested. Make it clear that you will inform the appropriate authorities if you don't get your metal soon. The loudest squeak gets oiled first.

6. Do you guarantee the authenticity, fineness, weight, and hallmark of the bullion you sell? Do you guarantee the authenticity and quality (grade) of the coins you ship?
☐ Yes ☐ No If "yes," ask:

How does your guarantee work? Will you:
☐ Replace the metal? ☐ Refund the purchase price? ☐ Other? (please specify)
I have been taken by one supposedly reputable dealer on the "guarantee." The coins shipped were overgraded, according to an independent appraiser. The firm offered to refund my money, but by then the value of the gold pieces had risen so much that the refund was $9,500 less than the true value of properly graded coins. There's no doubt about it—refund by replacement is the fair deal.

7. Do you accept sight drafts?

☐ Yes ☐ No If "yes," ask:
Do you have a minimum purchase for sight drafts?
☐ No ☐ Yes (how much is the minimum?)
Do you charge for a sight draft?
☐ No ☐ Yes (how much do you charge?)
Do you ask for a deposit before making a sight draft?
☐ No ☐ Yes (how much?)
A sight draft means the dealer ships your metal to a bank of your choice. You go to the bank and verify that the silver and gold you ordered is all there. Then you release good funds to the banker who simultaneously releases the silver and gold to you.

If a dealer does not offer sight drafts, you should not necessarily consider this a negative reflection on his business's overall "cleanliness." There are valid reasons not to offer them, most notably that they're a pain in the neck. On the other hand, sight drafts are extremely effective for investors. If you want to deal with a dealer but are not sure, the availability of sight drafts could override almost all negative aspects.

However, if the firm wants to charge you more than $50 or a percentage of the transaction greater than 0.5 percent, the availability of the sight draft is cosmetic. The firm is trying to discourage your use of this powerful safeguard. Moreover, if the firm demands a deposit greater than 5 percent to initiate one, it is defeating the entire purpose of the sight draft. In either of these two cases, go to another firm that treats your desire for safety more sympathetically.

8. Are all the employees who handle funds, silver, or gold bonded?

☐ Yes ☐ No If "yes," ask:
What does the bonding cover?
☐ Everything ☐ Fraud ☐ Embezzlement ☐ Theft
For how much is the company covered per incident?
☐ $0 to $100,000 ☐ $100,000 to $500,000 ☐ $500,000 to $2 million ☐ Over $2 million
Bonding is important to protect the firm—and, in turn, you—against crooked employees. If a couple of employees ship 3,000 krugerrands to Brazil without payment and then fly to Rio the same afternoon, chances are that the company could easily go under (in fact, there are very few dealers that could survive such a catastrophe). With adequate bonding, the company and its clients are protected against that kind of loss.

9. Are you audited by an independent certified public accounting firm?

☐ Yes ☐ No If "yes," ask:
May I have a copy of your audit, or a short statement prepared by your auditors, that confirms the financial information you've given me?
☐ Yes ☐ No
If the answer to either of these questions is "no," you should tend to discount the financial information given to you by at least 98 percent. It was Bullion Reserve's stubborn resistance to giving *Silver & Gold Report* an audited statement that led us to warn our subscribers to "get [your silver and gold] out immediately."

Remember, an unverified trust arrangement may not *really* be a trust arrangement. A "profitable" company that won't release an auditor's statement may be losing money hand over fist. Don't believe everything you're told.
May I have a copy of the segregation or trust/escrow agreement?
☐ Yes ☐ No
Refusal to disclose the segregation or trust/escrow agreement makes us nervous, but less nervous than refusal to produce audited verification of basic financial figures. The difference is that the former may reveal legitimate trade secrets involving operating procedures.

Furthermore, a firm may have paid literally tens of thousands of dollars in legal fees working out the details of the arrangement. The company has a natural reluctance to reveal this to everyone who asks for it, because sooner or later their competitors would get it for free. (This, by the way, is one of the reasons that the *Silver & Gold Report* can sometimes get information unavailable to individual investors. By now, many firms realize we don't reveal one firm's operating procedures to another.)

10. May I have references?

You should obtain the names, official titles, addresses, and phone numbers of several of the dealer's business associates. Among these references should be an official at the dealer's bank; two of the dealer's principal suppliers of silver and gold; the dealer's insurance agent; and the dealer's auditor.

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This brief negative commentary raised enough questions about Bullion Reserve to impel the firm to adopt a more open policy. Saxon gave *carte blanche* authorizations to Perpetual Storage, Bullion Reserve's supposed warehouser, and to West Coast Bank, Bullion Reserve's main bank, to "answer any questions that Mr. Rosenthal may have to the fullest extent of your knowledge." After I visited those two firms, I would visit Saxon in his Beverly Hills office and he'd give me the rest of the information I needed. Or so they promised me.

Those letters authorizing Perpetual Storage and West Coast Bank to divulge previously confidential information to me were very reassuring. When we tried to get this sort of information from IGBE and UPM, they stonewalled us. So my fears were calmed down; I planned to visit Perpetual Storage, but it wasn't on the front burner.

If a silver and gold dealer is making an offer that looks too good to be true, it almost certainly is.

A call from Howard Ruff moved the visit up to our front burner again. He had been in the vaults of Perpetual Storage on other business, having nothing to do with Bullion Reserve. What he saw about Bullion Reserve disturbed him greatly. He said he didn't feel he could properly go public with what he had seen, because his visit had been on other business. But he urged us to go forward with our own investigation quickly.

I visited Perpetual Storage the next week. I found, as I wrote elsewhere, that "the highly romanced double segregation storage program wasn't worth a wooden nickel." The trustee was nonexistent as a functioning entity; client metal wasn't held apart from the firm's own metal, as advertised; the insurance policy listed the warehouser, not the clients, as the beneficiary; and all the silver and gold was not there, contrary to what was advertised.

When we published our findings in *Silver & Gold Report*, we didn't mince words. The headline was: "*SGR* withdraws its recommendation of Bullion Reserve in North America. If you have silver and gold 'in storage' with them, we now recommend you get it out immediately."

Even so, I confess I was fooled at the time. I did *not* think Bullion Reserve was an out-and-out scam. I believed—preferred to believe—administrative sloppiness was at fault. Yet, a month later, I changed my mind and came to believe that the reason was fraud.

What changed my mind was our September price survey of silver and gold dealers. We found that Bullion Reserve was selling krugerrands for 3.43 percent over spot. Yet, if you remember the calculations discussed above, you'll realize that was just a dot *below* their cost. But a dot below cost was the only tipoff we needed. After all, how could they pay their overhead when they were losing money with each krugerrand sold?

The numbers didn't make sense, so once again, as with IGBE, I knew something was rotten. And indeed it was. Two weeks later, Bullion Reserve closed its doors in what has proven to be the largest silver and gold fraud in history.

Is there anything that can be learned from the Bullion Reserve debacle? In fact, there are eight lessons that careful investors might heed. They are:

- First and foremost: *If a silver and gold dealer is making an offer that looks too good to be true, it almost certainly is.* This simple rule will keep you free and clear from at least half of the frauds and scams in the world of silver and gold.
- Second: *The numbers must make sense.* Sometimes inexpensive is good; sometimes it's *very* bad. If you can't see how a dealer is making money, he may not be making it—he may be stealing it.
- Third: *All the dealer promises in the world, plus a token, will get you on the subway.* If you're at all like me, you have an almost irresistible urge to believe dealers. They're nice people. You hate to think they are just plain old simply lying to you. But they may be. You have to get independent third-party verification.
- Fourth: *If a dealer promises you third-party verification and it doesn't come when it's supposed to, find another dealer.* It doesn't matter whether you were promised references, contracts, audits, or whatever. Failure to supply promised materials is a big red flag.
- Fifth: *Ask friends and associates for references.* If a dealer gets bad referrals, move on. The converse, unfortunately, doesn't hold. As Bullion Reserve proved, a dealer can get great referrals and still be a scam.
- Sixth: *If you're not sure about a dealer, don't buy.* Why take chances? Things can happen very fast in the silver and gold industry.
- Seventh: *The only totally safe ways to buy silver and gold are sight-drafts and cash-and-carry.* Both feature simultaneous transfer of funds and metal.
- Eighth: *Nonfungible storage of silver and gold is the only fully safe storage.* That's when your metal is stored in units marked with your own name and stored in a third-party warehouse.

To follow through on these eight lessons, you need to ask dealers a lot of questions—before you deal. My own checklist of questions is presented on pages 58-59.

The primary reason most investors buy gold is that they do not trust the government. "The dollar is fiat currency," they say, not without justification. Gold, on the other hand, "retains its value through wars, revolutions, recessions, depressions, and inflations." Give or take some day-to-day fluctuations, I agree.

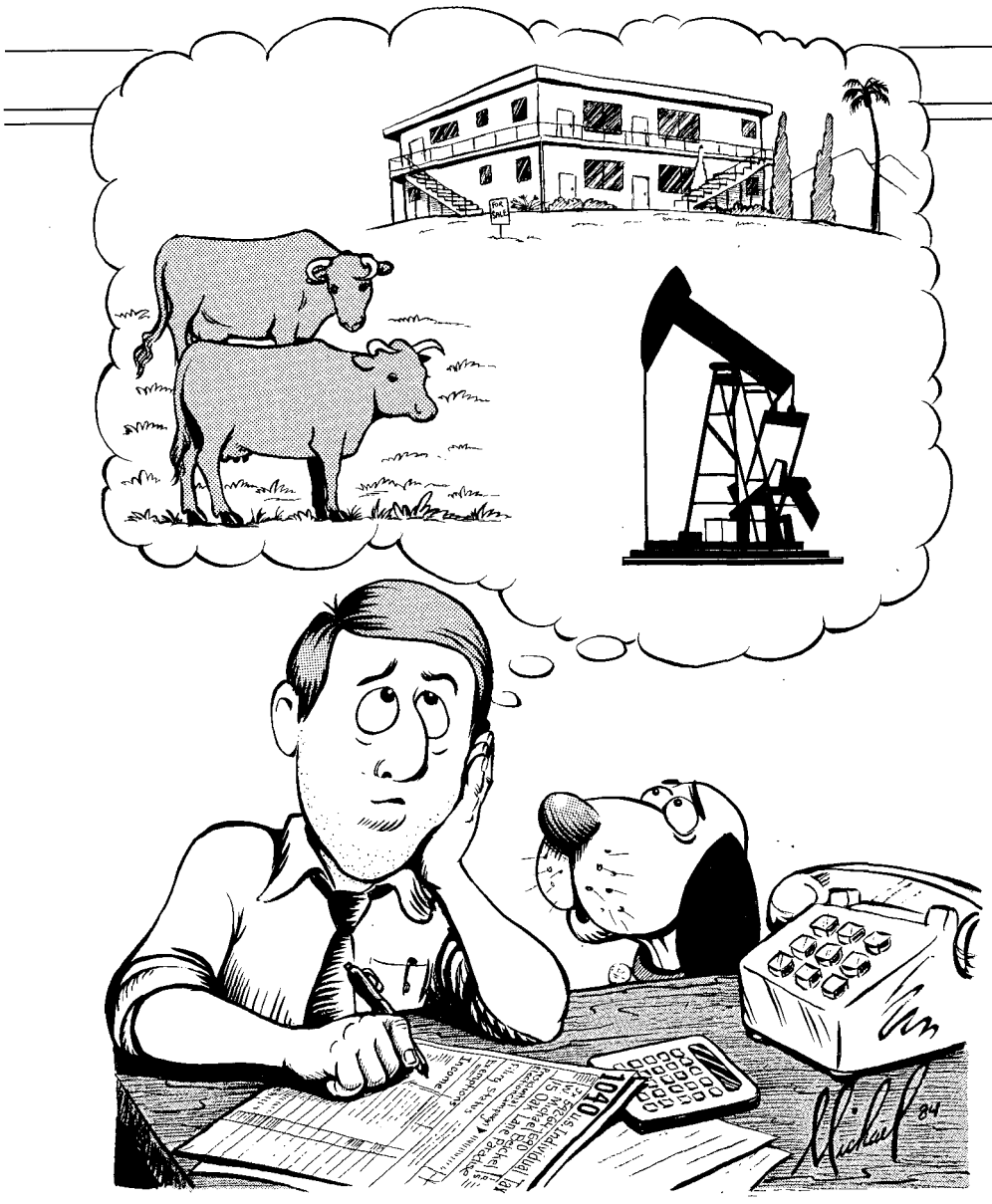
However, when you buy gold and trust the unbacked promises of a dealer (or the unproven promises, as in the case of Bullion Reserve), you're *not* buying gold. You're buying fiat gold—gold that exists only in the word of the dealer.

Why trust the promises of Bullion Reserve—or any dealer—more than the promises of the United States government? Or vice versa? If you're buying gold to protect yourself against promises, then protect yourself against promises: take delivery. Get your silver and gold in your own sticky fingers. Then you know it's there—no promises, ifs, buts, or maybes.

I love the silver and gold industry, but I like to be realistic about it. And realistically, the silver and gold industry is *still not clean.* There are so many sharks, crooks, and frauds out there that unless you know exactly what you're doing, the odds are too much against you.

It's not worth the risk. Your whole investment can be gone in the twinkling of an eye. So, if you don't know *how* to buy, *where* to buy, and *what* to buy, don't buy. Put your money in a money-market fund and you'll probably be better off. You'll certainly be safer. ◧

Daniel Rosenthal is editor of Silver & Gold Report *and enjoys ballet, books, and babies.*



Gimme Shelters

The ins and outs of tax shelters

By Terry Coxon

You've probably heard that death and taxes are the only certainties in life. However, the saying may be wrong.

I am not proposing a new certainty (nor am I offering immortality). My objection to the saying is that your tax bill is not a burden ordained by fate; it is something you choose, just as you choose the speed of your car. You can reduce the burden if you know how to work the controls. One set of controls is called tax shelters.

A tax shelter is an investment that enables the investor to claim deductions or credits that lower his tax bill. Most investments have to be made with after-tax dollars; but a tax-shelter investment, in effect, can be made with before-tax dollars. For this to be possible, most or all of the amount invested must be deductible from the current year's taxable income.

With the more aggressive tax-shelter programs, the value of the tax deductions and credits may actually exceed the cost of the investment. In such a case even a mediocre investment becomes exciting because the government, in effect, is buying it for you.

Some shelters exist because the government deliberately encourages certain industries. A more general source of tax-shelter opportunities is the government's inability to write rules that precisely measure your true income.

Most tax-shelter programs are complicated, because tax shelters operate primarily by exploiting discrepancies between economic reality and the tax laws and regulations.

A large portion of the tax rules amount to a formula for calculating the net taxable income of a business, and this is where the discrepancies between the rules and economic reality are greatest—and are most readily exploitable. Consequently, most tax shelters are organized around business ventures. So we'll begin by taking a look at the problem the government faces in trying to measure the income of a business.

Because the values of a business's assets and liabilities are in constant flux, the cash register alone cannot indicate whether the business is making money or losing it. To compute the business's income or loss precisely, one must know the value of everything it owned and owed on the first day of the year, and everything it owned and owed on the last day of the year. The difference between the two, plus anything that was paid out to the owners, would be the true profit, or net income.

But there is no way for anyone, least of all the government, to collect this information. To raise just one question: What is the value, on any day, of the equipment and machinery the business owns? The business's books provide some figures, but these numbers are only a formality—numbers created by following the government's rules. These numbers say nothing about the true wear and tear the machinery has undergone since it was acquired by the business, nothing about its actual resale or replacement cost, and nothing about its present and future usefulness to the business.

And the government's rules don't allow for the goodwill and reputation the business has built up. Even the owners of the business would be hard-pressed to put a value on it. But in many cases goodwill is the most valuable asset the business owns. Any change in its value during the year means an element of profit or loss that is invisible to the tax rules.

The government's rules are not much more successful in measuring business liabilities, since the rules ignore the effect of inflation on the value of the money the business might owe. The rules also ignore the effects of changes in prevailing interest rates on the present dollar value of long-term debts. Nevertheless, any decrease in the value of debts adds to profit—an addition invisible to the IRS.

Most tax shelters depend on one or more of three elements of expense that the tax rules poorly measure. They are interest expense, depreciation, and capital expenditures.

• *Interest expense.* During a time of high inflation, interest rates about match the rate at which the value of money is declining. Consequently, when inflation is high, an interest payment is really a repayment of a loan's purchasing power, rather than an actual cost of doing business.

Nevertheless, the tax rules ignore inflation. In determining the year's profit, the tax rules say, "Subtract interest payments (but ignore the shrinkage in the debt's purchasing power)." The tax rules include an important limitation on interest deductions. The limitation rests on a distinction between interest paid in the course of running a business and interest paid to finance investments.

Interest paid as an expense of running a business is deductible each year without limit. For the purpose of this rule, "business" is defined very broadly to include the "business" of renting out real estate.

But interest paid on loans taken to purchase investments (stocks, bonds, precious metals, foreign currencies, etc.) is deductible each year only up to a limit of $10,000 plus the total income earned from investments (dividends, interest, royalties, and short-term capital gains). Any investment interest paid beyond the above limit is carried forward to the following year, when it can then be deducted—subject to the overall limitation for that year, also.

To avoid the limitation on deductions for investment interest expense, most tax shelters involve either real estate or an operating business.

• *Depreciation.* Buildings and machines gradually wear out from use and from the effects of time. The decline in value each year is a cost of doing business and should be subtracted in determining true net income. The tax rules attempt to do this by allowing a fraction of the original cost to be deducted each year as depreciation. Eventually, over a period of years, the entire cost is deducted.

Within the rules, the taxpayer has considerable latitude to choose the annual rate at which the total depreciation allowance will be used up. If he wishes, he can choose a rate that far exceeds the equipment's true deterioration.

However, the total depreciation deductions claimed for a machine (or a building or anything else) may not exceed the amount paid for the asset. Consequently, if the depreciation deduction in the first year is greater than the machine's true deterioration, later years' deductions inevitably will fall short of the true deterioration in those years.

Thus, tax shelters usually are new businesses—drilling a new oil well, becoming the new owner of equipment to be leased, or becoming the new owner of an apartment building. Even if the assets purchased are not new, the new owner can begin claiming depreciation deductions all over again. In this way, assets are "recycled" for tax-depreciation purposes.

• *Capital expenditures.* The tax rules make an artificial distinction between capital goods (the cost of which may be deducted as depreciation only over a period of years) and consumable goods and services (the cost of which may be deducted in full each year).

Generally, *in the thinking of the* IRS, anything is a consumable if it will be used up within 12 months from the date it was purchased and its total cost can be deducted as soon as it is paid. Thus a taxpayer can deduct an expenditure made on the last day of the year, even though the expenditure will be contributing to profits that will not be taxable until the following year.

In fact, an expenditure deductible in full for one year may contribute to profits that do not become taxable for many years to come. An extended delay is possible because the tax rules take a rather simple-minded approach to what constitutes being "used up."

According to the rules, the hay eaten by a calf gets used up somewhere between the mouth and the tail. In a physical sense, that is true enough. But it isn't an accurate description of economic reality. The hay has not been used up at all; it has added to the value of the calf. But the increase in value will not be recognized as income by the tax rules until the calf is sold (perhaps two or three years later, as a steer).

The tax benefits possible with capital expenditures are a second reason that most tax shelters are new businesses. An old business may have expenses that were prepaid and deducted years ago that will show up as taxable income this year. But a new business has no history of prepaid expenses to haunt it. An old business could be used as a tax shelter only if it had, for some reason, understated its expenses in past years, thus providing the opportunity to deduct those expenses now.

Because the opportunities for tax sheltering involve creating and running a new business, shelters usually require a full-time manager. But the investor does not want to assume, without limit, the liabilities that might be incurred by the manager. Organizing the project as a corporation would limit the liabilities, but it also would prevent the investor from including his share of the tax deductions and credits on his own tax return each year.

Consequently, most shelters are organized as limited partnerships. A limited partnership is a legal structure consisting of a "general partner" and a group of "limited partners." The general partner has complete authority to run the business and is himself liable for all the partnership's debts if the venture should go bankrupt. The limited partners are the investors. They have no say in running the business and have no liability for the partnership's debts or other obligations beyond the amount they invest. The agreement between the general partner and the limited partners will spell out the compensation the general partner is to receive, which usually includes a share of the profits.

A partnership pays no income tax. Instead, each partner (general or limited) includes his share of the partnership's income and expenses in his own personal tax return. Thus the investors are relieved of the need to run a business, but they receive immediate tax deductions, and their liabilities are limited.

Early each year, the general partner files a partnership "information" return (form 1065) with the IRS. He also sends a form K-1 to each limited partner, showing the partner's share of income and deductions for the year. The partner then includes his share of net income (which will be a negative number if deductions exceed income) on his personal tax return.

Tax shelters are complicated. But there is more to the problem than just picking through the available shelters. Even the best shelters have serious drawbacks that, depending on your circumstances, may outweigh the tax savings. We'll cover six major drawbacks here.

1. *Dependence on inflation.* Nearly all tax shelters are organized around either a real-estate investment or an operating business. Any sustained slowdown in inflation would be ruinous for real estate. And, unless the slowdown were gradual, it would be harmful for most operating

businesses as well. If you already are overly dependent on continuing inflation, a tax shelter probably would add to your portfolio's overall risk.

2. *Low before-tax rate of return.* Low rates of return are the norm in tax shelters for two reasons. First, investment assets that lend themselves to use in tax shelters tend to get bid up by investors competing for tax benefits. Real estate is a good example of this. The large interest deductions and generous depreciation rules for real estate are features that high-income investors are willing to pay for. As a result, real-estate prices have been pushed up to a point at which the before-tax rental return on many properties is very low.

The second reason for low rates of return is the promotional cost. If the marketplace has overlooked a tax-shelter opportunity, so that the underlying asset has not been bid up, the tax-shelter promoter who discovers and markets the opportunity will charge for his service, reducing the before-tax rate of return on your investment.

3. *Illiquidity.* There is no ready resale market for most tax-shelter investments. This is not so important if a large share of your portfolio is in a marketable form. But if you are short of liquid assets, a tax-shelter investment will aggravate the problem.

4. *Recapture risk.* If the business around which a tax shelter is constructed goes bankrupt, it may generate a flood of "recaptured" taxable income—without providing any cash to pay the tax bill.

A failing business can produce taxable income because, in the course of failing, its assets are sold to satisfy the claims of creditors. Since the business is a tax shelter, it probably has been claiming depreciation deductions at the fastest rate the rules will allow.

For tax purposes, at this point, the depreciated value of each asset the business owns is the original cost of the asset minus all the depreciation deductions that have been taken for it. If the asset is sold for *more* than the depreciated value, the difference is taxable income—even though the business is going broke. The ugly result for the investor is the reverse of his original intention. He now has phantom income on which he must pay real taxes.

5. *Disallowance.* The tax rules are full of gray areas, and the IRS has its own way of interpreting the rules. It may say no to the deductions you purchased a tax shelter in order to claim. Then, unless you contest the matter and win, you will have an additional tax to pay, plus interest, and perhaps even penalties.

6. *Audit risk.* The IRS computer system scans all returns for signs of questionable deductions. Even if you have not claimed any deduction that cannot be easily defended, the figures you report for your tax shelter investment increase the chance that your return will be selected for an audit. The nuisance cost could be considerable.

Using any tax-shelter investment involves a compromise between the disadvantages that are associated with most shelters and the desire to save on taxes. There are a number of steps the taxpayer can take in searching for an intelligent compromise.

Tax shelters involve a compromise between the disadvantages of most shelters and the desire to save taxes.

• *Easier alternatives.* First, check out other possibilities before deciding on a tax shelter. Look for ways to prevent the income you earn from actually reaching your hands in a taxable form. Depending on how you earn a living, it may be possible to convert what is now salary into pension plan contributions or corporate profits—money that gets taxed at a low rate or even at no rate at all.

• *Risk ratios.* There are three calculations that determine how easily your portfolio can absorb a tax-shelter investment without unduly increasing its overall risk: 1) The real-estate ratio is the gross value (disregarding any mortgages) of all the real estate you own, divided by your net worth. 2) The business-asset ratio is the gross value of all the business assets you own (including stocks, equipment and inventories in an operating business, equipment leased to others, and interests in oil and gas programs), divided by your net worth. 3) The dollar ratio is your net position in dollar assets (the cash, bonds, notes, mortgages, etc., that you own, minus the debts you owe) divided by your net worth. If your debts exceed the dollar assets you own, then the dollar ratio will be a negative number.

To calculate the three ratios, you'll need to draw up a personal balance sheet to find out how your net worth is distributed among various investment categories. Don't try for too much precision; this is a balance sheet that no one is going to audit, and round numbers will do.

But include every substantial asset and liability that affects you directly or indirectly: your home and any mortgage owed against it, your personal investment holdings and any debts you have incurred to purchase investments, your interest in a pension plan, your share of the gross assets and liabilities of any partnerships you have invested in. (Use the gross value of each asset, even if there is a loan against it. Enter debts separately.)

After you have drawn up the balance sheet, figure your net worth by subtracting the amounts of all your debts from the value of the things you own.

What the ratios should be is another large topic. Generally, a high real-estate ratio (50 percent or more) represents a bet that inflation will continue to rise in the gradual fashion of the last 20 years and that there will be no change in the features of the tax code that now favor real estate over other investments.

A high business-asset ratio is a bet that inflation is going to decline gradually—or at least not get any worse. A low (or large negative) dollar ratio is a bet that inflation will rise, either gradually or rapidly. A high dollar ratio is a bet that inflation will decline.

You probably have some standards in mind for those ratios. In considering the kind of tax shelter to buy and how much to put into it, you need to recognize whether the investment will push your portfolio closer to the target ratios or pull it further away.

• *Adjust the portfolio.* Although it might not be necessary, you may be able to change the ratios to make room for a tax shelter by selling the "excess" investments. To do so, you will have to identify something in your holdings that you are willing to let go and whose sale will not itself add to your tax problems.

• *Decide on a tax rate.* Make a tentative decision about what you want your marginal tax rate to be. By putting enough into tax shelters, it would be a simple matter to get your tax rate down to zero. But, because of the disadvantages that come with most tax shelters, this probably would be overdoing it.

You will have to choose the point at which any additional tax saved with a shelter is no longer worth the low return,

illiquidity, hazards of recapture and disallowance, audit risk, and possible portfolio imbalance that come with the shelter. (If you don't have an opinion on this, I suggest a marginal tax rate of 35 percent. A marginal rate of 35 percent means that a $1 change in taxable income would result in a $.35 change in your tax bill.)

Now let's take a look at what the tax-shelter marketplace has to offer.

• *Real estate.* The main types of real-estate shelters are houses, apartments, shopping centers, and low-income housing. A house is the simplest, most straightforward tax shelter of all. It is small enough to purchase by yourself (rather than in partnership with others) and it is comparatively easy to manage. The house will be a tax shelter because deductions for interest and depreciation will exceed the net rental income (rents minus maintenance and property taxes).

A house purchased with a down payment of 20 percent (and a mortgage of 80 percent) will generate a tax loss equal to about 12 percent of its value in the first year. That means a tax loss in the first year of 60 percent of your cash investment. After the first year, the house will continue to produce tax losses, but they will gradually decline and reach zero in about the sixth year.

The operation of an apartment house as a tax shelter is about the same as for a house. There are a few differences to consider, however.

The at-risk rule was intended to be a wooden stake in the heart of multiple-deduction tax shelters.

—*Rent controls.* A house can be converted from rental property to owner-occupied property simply by selling it. Thus it is easy to rescue a house from rent controls. The conversion of an apartment house into condominiums (to be sold to owner-occupants) is not so simple. The conversion may require zoning or other permits and may have adverse tax consequences. And even if the government does nothing to hinder the conversion, the physical character of the building may rule out the change.

—*Partnership.* Because of the size of an apartment house, you may find that investing in apartments means investing in a partnership. Thus you will have the job of evaluating the skill and trustworthiness of the managing partner as well as evaluating the building itself. On the other hand, the partnership arrangement can relieve you of all management burdens.

—*Limitation of liability.* If you become a limited partner in an apartment-house shelter, you will have no personal liability for the mortgage (or for any other partnership debt).

As with houses and apartments, shopping centers operate as tax shelters because deductions for interest and depreciation outrun net rental income and because appreciation is not taxed until the property is sold.

Credit terms are similar to those for apartments—a 20 percent down payment and an 80 percent mortgage. The tax deductions also are similar—about 60 percent of your cash investment in the first year, declining to zero in about the sixth year.

However, shopping centers differ from apartments in two ways. First, it is unlikely that a shopping center would ever be subject to rent controls except as part of a program of wage and price controls encompassing the entire economy.

Second, a shopping center often has a large share of its space rented out on noncancellable leases that run for 30 years or more. Such a lease, if it sets the rent to a fixed number of dollars, is a long-term dollar asset that helps to balance your portfolio against the mortgage debt incurred with the shopping center. It also serves to reduce the amount of real estate the shelter introduces into your portfolio, since the tenant's right to use the property for 30 years amounts to a partial ownership of the property.

The government offers special incentives, including tax advantages, for investing in low-income housing. If a housing project is built for persons with less than a specified income, and if various other requirements are met, the government will guarantee the mortgage taken to construct the building (making it easy to borrow at a low rate), and will allow the investors to take depreciation deductions for the full cost of the project over a short period.

The low down payments (available because the government guarantees the mortgage) and the rapid depreciation of the building result in deductions that amount to a much higher percentage of the cash investment than with most real-estate shelters.

The disadvantage of low-income housing shelters is that they are considerably riskier than most real-estate programs. The projects tend to have high operating and maintenance costs and high rates of tenant delinquency, especially during recessions. And when a low-income housing project does go under, the tax results are ugly: most of the depreciation deductions from earlier years are recaptured as taxable income.

• *Oil and gas.* The tax benefits of oil-and-gas-drilling programs come primarily from deducting expenses that are really capital investments. The cost of drilling a well is deductible as an ordinary expense. Because this is where most of the investment goes, the investor can deduct 80-90 percent of his cash investment in the first year and most of the rest in the following year.

In addition, the income that is eventually earned from a successful oil and gas program is taxed under favorable rules that allow the taxpayer to claim a deduction (the depletion allowance) of up to 20 percent of the value of the oil or gas being produced. The depletion allowance is based on the project's gross income, not on its net income.

After the original drilling costs, the major operating expense is the payment of royalties to the owner of the property on which the drilling takes place. However, these costs are paid only when the wells actually produce income.

There are two types of oil and gas shelters—exploration programs and development programs. An exploration program drills wells in an area where oil and gas have not yet been found in commercial quantities. Exploratory drilling is far riskier than developmental drilling, but it also holds out the possibility of vastly greater profits. The profits are higher because the property owner cannot ask for high royalties when the drillers are taking a large risk.

A development program drills wells in locations close (perhaps within a few hundred yards) to wells that are already producing oil and gas in commercial quantities. The geological risk is much less than with exploration drilling. Also less is the chance of an outsize profit, since the owners of land close to wells that are already producing oil or gas or-

dinarily demand large royalties.

• *Mining programs.* A mine can be operated much like an oil-and-gas-drilling program. However, expenses incurred to prepare a mine for production are deductible only if it has already been proven that minerals are present in commercial quantities. If so, costs for labor, equipment rental, etc., are deductible immediately, allowing nearly all the investor's cash investment to be deducted in the year it is made.

In addition, some partnerships that mine for gold or silver defer their income simply by not selling the metal they produce. Instead of sending it to market, they physically distribute it to the investors (the limited partners). The metal an investor receives does not represent taxable income for him until he sells it. If he sells it within five years, the profit on the sale is treated as ordinary income; after five years, it is a long-term capital gain.

A gold- or silver-mining tax shelter that distributes its production to the investors is particularly attractive to someone who wants to add to his holdings of gold or silver. It enables him to buy the metal with before-tax income.

• *Equipment leasing.* In an equipment-leasing tax shelter, the investor purchases equipment or machinery and leases it out for use by someone else. The investor receives deductions for depreciation and interest expense, plus an investment tax credit.

In the first year of the lease, the investor might show a tax loss (rental income minus interest and depreciation expense) equal to 20 percent or so of the value of the equipment. He also may receive a tax credit equal to 10 percent of the equipment's value. If the equipment is purchased with a 25 percent down payment, the investor can get deductions equal to 80 percent of his cash investment and tax credits equal to 40 percent.

In principle, an equipment-leasing venture can be a tax shelter, because the interest deduction is greater, during a time of inflation, than the true (after inflation) cost of credit. In addition, in the early years of the program, the depreciation deductions allowed by the government's rules may exceed the actual deterioration of the equipment. However, two factors make equipment leasing unattractive.

First, the tax benefits for the investor are merely benefits shifted from someone else. The company that leases the equipment for its own use must give up the tax credit it could have earned by buying the equipment. It also gives up the depreciation and interest deductions. These disadvantages to the company using the equipment normally result in a low rental rate.

Second, equipment programs depend for most of their tax benefits on tax credits and accelerated depreciation expense. If a program fails and must be liquidated, much of these benefits may be recaptured, as discussed earlier. Recapture can cause the investor to report income on which he must pay tax, without providing the cash to pay it.

• *Multiple-deduction shelters.* The ideal tax shelter is one whose tax benefits are so great that the project will yield an after-tax profit to investors even if the underlying business turns out to be a complete failure. To do this, the deductions or other tax benefits must exceed the investment actually made.

The program must have a reasonable chance to succeed as a business in order to qualify for tax benefits.

For example, if a shelter can allow investors to claim deductions equal to 300 percent of their investment, an investor in a 33⅓ percent tax bracket will break even from the deal even if the business loses every penny put into it. An investor in a 50 percent tax bracket would show a profit no matter what the commercial result.

Such programs are called multiple-deduction shelters, and Congress has enacted rules aimed specifically at them. The most serious attack in recent years was included as part of the Tax Reform Act of 1976. It is known as the "at-risk rule," and it applies to all investments except real estate.

The essence of the at-risk rule is that an investor may not claim deductions for more than the amount he is risking in the investment. The amount that he has at risk includes his cash investment, any notes he has signed, and any business obligations for which he has accepted personal liability.

The at-risk rule was intended to be a wooden stake in the heart of multiple-deduction tax shelters; it would make the world safe for tax collectors. It hasn't worked out that way. The tax-shelter industry has produced a number of devices that allow a taxpayer to claim tax benefits equal to many times his true at-risk investment.

Unhappily, the multiple-deduction shelters are a mixed bag. Many of the programs claim benefits that more likely than not will be disallowed by the IRS. However, if the investor finds a multiple-deduction program that is not flawed, the rewards can be enormous. With a valid multiple-deduction tax shelter, the investor can save more in taxes than he risks on his investment and can have a businesslike prospect of earning a return on his investment in later years.

We'll look at some of the possibilities here.

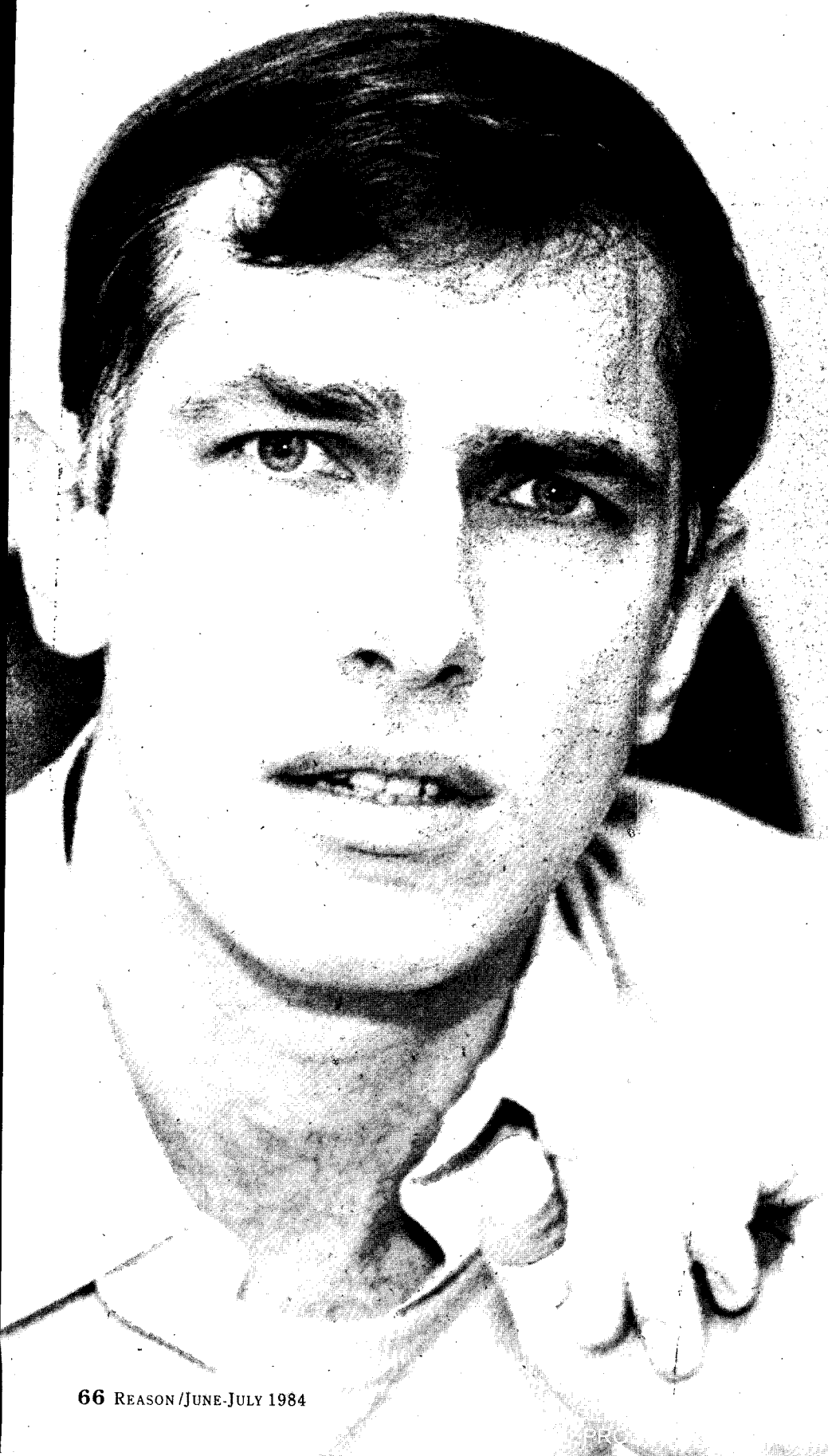
—*Minimum royalty oil and gas programs.* Most of these involve low-risk development drilling. They differ from standard development drilling programs in their tax structure, enabling investors to take tax deductions equal to about 300 percent of their cash investment and 200 percent of what they actually have at risk.

This bit of magic begins with organizing the drilling partnership as an *accrual-basis* taxpayer. Unlike a cash-basis taxpayer (which probably is what you are, even if you don't know it), an accrual-basis taxpayer does not deduct an expense when it is paid in cash, but rather when he incurs a binding, unconditional obligation to make the payment.

Next, as with a normal drilling program, the partnership promises the owner of the drilling site a royalty equal to a fixed percentage of the oil and gas that is produced. However, this program also promises the landowner a minimum annual royalty. The minimum royalty is incurred every year until the project is abandoned, no matter how little oil and gas are actually produced. But the minimum royalty is payable *in cash* each year only out of the actual production from the wells. If there is a deficiency, any unpaid minimum royalty can be deferred until a stated date in the future, usually at least 12 years after the start of the lease.

The final step is for each investor to assume personal liability for his share of the minimum royalty. Usually there is a strict ceiling on the investor's liability, such as twice the amount of his cash investment. Because the investor has put himself at risk for the minimum royalty,

(Continued on p. 70)



Doug Casey is one of the classic success stories in the investment publishing business. His book **Crisis Investing** *was on the bestseller list for 34 weeks. Written in 1978, the book was published in 1979 just in time for all of Casey's predictions to be validated by the market. His recent update of that book, which takes a longer-term and more sophisticated perspective, is* **Strategic Investing**, *published in 1982.*

Despite the commercial successes of **Crisis Investing** *and* **Strategic Investing**, *Casey says he is most proud of his book* **The International Man**, *published in 1981. A guidebook to living and investing in more than 100 countries,* **The International Man** *is aimed at people who are seeking their fortunes or attempting to escape the shackles of government.*

Himself something of an "international man," Casey has traveled and transacted business all over the world in search of wealth for himself and his clients. Around the globe he has made the most of virtually every major type of investment opportunity, including real estate, commodities, securities, insurance, and banking.

Currently, Casey is president of the Casey Group, Inc., and International Fund Management, both located in Washington, D.C. He is also a senior consulting editor for the **Personal Finance Letter**.

Not limiting his interests to the investment world, Casey races motorcycles and aspires to design his own futuristic race car. In the summer, he turns his attention to the arts and sciences by gathering together in Aspen, Colorado, individuals who have distinguished themselves in a variety of intellectual and physical endeavors.

Contributing Editor Joe Cobb interviewed Casey in his luxurious Georgetown residence in March, just as he was departing for another investigative trip to an unspecified Third World country.

DOUG CASEY

REASON: What was your life like before you wrote your first book? In other words, what were you doing 10 or 15 years ago?
CASEY: Just attempting to make my way in the world. I graduated from college, which was a misallocation of four years of my time and $20,000 of my parents' capital, with a barely passing degree. I hoped to go out and seek my fortune and high adventure in the "southern hemisphere." In order to do that, I went to work at two jobs, teaching school as a substitute teacher in the combat zone during the day and working as a bartender at night.
REASON: This was in Washington?
CASEY: That's right. Then I met somebody who said I could make more money more quickly by selling group insurance to law firms. Of course, law firms in Washington grow like poison mushrooms. So that's what I did, and I made a lot of money at it. Then I became a stockbroker and did reasonably well at that. In the process of exploring how to make more money, I tried to answer a couple of questions to my own satisfaction as to how the world works. And I found that the difference between casual cocktail-party chatter and an integrated world view is whether or not you can put it down on paper and make it tie together logically. That led me to start working on my *Crisis Investing* book, which was finished in late 1978 and published in early 1979. And the rest is history.
REASON: *Crisis Investing* was originally published by a small California press. Then it was republished and became a smash bestseller. Who's responsible for that marketing triumph?
CASEY: Robert Ringer, who was responsible for the marketing success of his own books. Bob writes great ad copy.
REASON: He picked up your book and was able to promote it?
CASEY: It was the right book with the right idea at the right time, and it all just came together. I was very pleased about it, because I think that everybody gets what they deserve, and I'm glad to see that that rule also applies to me.
REASON: Your book *The International Man* surveys 159 countries of the world—their opportunities for investment, adventure, and so on. Was most of the research for that done with actual travel or by gathering information from the various Washington embassies?
CASEY: You have to do both. A lot of the information in that book is statistical in nature, so it's worth almost nothing unless it has an interpretation. I visited almost all of the countries that I wrote about.
REASON: Have you been to China and Russia and the other Communist countries?
CASEY: Yes, I have. I thought going to Russia was especially interesting. I could compare it to nothing more apt than being in Cleveland in 1933. It's a society that would certainly collapse if it wasn't for the one-way flow of loans and technology and things of that nature from the West. That's one of the things, incidentally, that makes me so confident that we're going to have a war sometime in the future. There are only two ways that you can get what you want in the world. One is to create or trade for what you want, and the other way is to steal it. The Soviet Union is totally incapable of creating anything, so that leaves one alternative, to steal it. The other thing that makes me think the international situation will end badly is the incredible stupidity of the Western governments, including the policies of the Reagan administration, which combine the very worst of an aggressive warfare state with the welfare state that it continues to nurture. I don't know where you run and hide, frankly. You can't. That's the whole problem.
REASON: Having done your research for *The International Man*, and considering that much of the world is in a crisis now, why did you end up choosing to stay in the United States?
CASEY: Two reasons. First, inertia. Second, this is probably the most desirable country in the world to live in if you either want to make more money or you already have a lot of money. I fit into both of those categories at this time. I've thought about living in a number of different countries and am thinking about it now. But I'm still here, so the cost-benefit equation must still be favorable. But if you do this interview tomorrow morning, I might have changed my mind.
REASON: You mentioned the inertia factor. As a person looks around at other places in the world, how much should the choice of a country be based on how to avoid taxes or how to avoid a future war, especially a nuclear war, as opposed to simply enjoying the comforts where one already is?
CASEY: Well, it's all a matter of risk-reward ratios. You might have heard the story of the guy before World War II who figured that something was going to blow up, so he decided to buy himself a little plantation on the most out-of-the-way island he could possibly find in order to get out of harm's way. At the time, it was a good choice, but the island was Guadalcanal, the site of a famous World War II battle. So the answer is that you can run, but you just can't hide from these people.
REASON: Is there anywhere to go to avoid the disaster of nuclear war?
CASEY: Well, I like the idea of owning real estate in a number of places outside the country. If you own real estate outside of the United States, you should be able to get all of the tax advantages that implies, and it's going to be very helpful in beating foreign-exchange controls, which I think are certainly coming to the United States in the next few years. Better than

PHOTOGRAPHS BY LOUISE NOAKES

that, you'll always have a place where you can go to live if it's no longer desirable to live here in the United States. For that reason, I'm buying quite a nice condominium in Hong Kong, where prices are down about 50 to 75 percent from their peak of several years ago. I'm buying a nice place in the mountains of Costa Rica, where prices are also down about 75 percent from a few years ago. And I'm looking to pick up some place perhaps in South America, in Argentina or Chile, where once again I can pick something up at perhaps 20 to 25 cents on the dollar.

REASON: It sounds like an application of the contrary opinion philosophy. Hong Kong is supposed to be taken over by Red China; Costa Rica is supposed to be absorbed by the Sandinista revolution in Nicaragua; Argentina and Chile are supposed to have a backlash now with left-wing governments.

CASEY: Well, of course, everybody in the investment business today wants to fancy themselves as being the contrarian, but I think the true acid test of being a contrarian is to actually try to go places where the blood *is* running in the streets and where prices are, in point of fact, down 75 or 80 percent from their peaks. All of these goofy little countries where you can get good bargains have been having problems like this since day one of their history. They'll probably be having problems like this until the millenium comes, so if you only buy when things look rosy, then you're bound to be buying at the top. For instance, people are unaware of the fact that Nicaragua was a haven for the jet set back in the 1960s—Mick Jagger and Bianca were promoting it to their friends. Now—which is a good time to buy in Nicaragua, at probably about two cents on the dollar—nobody wants to hear about it. The way you make money is to buy when prices are down; and of course, things never look good then. That's why prices are down.

The best advice I can give anybody who wants investment help is not to follow anybody's advice.

People have got to realize that these governments come and go. Today they're called communists. They used to be called agrarian reformers or socialists. There's nothing particularly different about what's going on in these countries—or for that matter, what's been going on in the Soviet Union since day one, Ronald Reagan's ridiculous rhetoric notwithstanding. I don't think the communist threat is any different from the Napoleonic threat of 150 years ago or the Kaiser's threat of 60 years ago or Alexander the Great's threat of 2,000 years ago. Nothing's special about any of the philosophical rhetoric that these people use except in the effect it has on our own rulers—to get people frothing at the mouth to build up the American military establishment. The best thing that could happen to the United States is that the US military establishment would be abolished. I think if I was president of the United States, I would immediately unilaterally disarm the United States.

REASON: That, of course, immediately brings to mind the statement from others that the Soviets at that point would attack us.

CASEY: There's something that has to be done first if we're going to have unilateral disarmament. You have to also abolish the state, because right now all of the property of the United States is de facto owned by the US government. You might say, "Well, I own my house." And I'd say, "Oh, no, you don't own your house. Try not paying your real estate taxes for a year, and you'll find out who really owns it." If you abolish the US government—in fact, abolish all governmental units in this country—all the land in this country will become privately owned. At that point, if the Soviets wanted to tax the United States or do anything with this big geographical area of land, they'd have to land an army on the West Coast and conquer every single inhabitant of the country. They'd have to go about conquering each and every one of the more than 200,000,000 people who live here, none of whom want to have their property taken away from them. I explored that theme a little bit in the last chapter of my *Crisis Investing* book, a chapter which, incidentally, I think was the best thing I've ever done. I'll stand by unilateral disarmament, and I can do so fearlessly because I know that there's not a snowball's chance in hell that it's ever going to occur.

REASON: You recently wrote another book, *Strategic Investing.* How is that doing?

CASEY: Well, it did reasonably well. It was on the *New York Times* list for seven weeks, but since it's a much more sophisticated book, it, by that very fact, had a smaller audience to appreciate it. It's my swan song to the investment field. You say something once, it's enough; twice is more than enough; and three times or more is a record excess.

REASON: Do you see your career in the future remaining principally as a writer or as an investment advisor, or do you see yourself going in other directions?

CASEY: Well, the investment advisory business has been very good to me. My newsletter is successful and profitable. My fund management business is successful and profitable. So I'll continue with them, because it's nice to have a little bit of formal discipline in your life. It also helps to pay the bills. But in the future I'm going to spend more time doing things that give me a measure of excitement. My next book is going to be called "The Renaissance Man." It will probably be subtitled, "How to Do Anything You Want to and Be Anything You Want to Be." There are a lot of things I've always wanted to do. I've wanted to climb mountains; I've wanted to race motorcycles, race cars, run a triathlon, qualify myself in a number of arts and sciences—in other words, do all the things you're supposed to do if you're a Renaissance man. Since I'm doing it with a certain amount of forethought, I might as well write a book about it. I'm also planning to do a novel, which I've structured out, called "You Can Profit from the Coming Collapse of Western Civilization." It's a black comedy about the end of the world, but fortunately it has a happy ending.

REASON: You have sponsored an organization called the Eris Society.

CASEY: Yes, every summer in Aspen, which is where I live in the summer, I invite people who have distinguished themselves in arts, literature, science, sports, music, or what have you, to just come together and get to know one another. That's what the Eris Society is. Hopefully, it'll become a self-perpetuating tradition so that it can continue long after I'm bored with the concept.

REASON: What were some of the influences originally that shaped your own economic views?

CASEY: The desire just to be left alone, quite frankly, was number one. And there was a corollary to that—a desire to do whatever I wanted to do whenever I wanted to do it. In order to do this, you need to command certain physical resources, so I thought in terms of getting money any way I could. But since I believe that there really is such a thing as the wheel of karma, I didn't want to make money in just any way. I wouldn't want to relate to other people in making money in any way that I wouldn't want them to relate to me. The quest for money made me look into ethics, and at about that time I found Ayn Rand's books and read them. I found them of great value. The

next book that was helpful in shaping my thought process was probably *The Market for Liberty* by Morris and Linda Tannehill. At first I was a liberal, then I was a conservative, and then, after Rand, I was an objectivist. Then I became an anarchist. Now, even being an anarchist is too dogmatic for me, so I've become a discordian.

REASON: Do you have any interest in being involved in politics to try to change the course of events?

CASEY: People who believe in political involvement, I think, are not only not helpful, but they're actually detrimental to the cause of individual freedom, because they're playing the enemy's game. They're lending credibility to the political process, and the political process itself is the problem. It is in no way a solution to the problem. Whether or not you get involved in politics is an ethical issue. It's not what kind of politics that you have, it's whether you're going to be politically involved. That's where I draw the line. People who get involved in politics have ethics of which I don't approve. All of politics is just a matter of opinion and who gets to enforce their opinion on somebody else.

REASON: Most of the people who read this interview may have no interest at all in being candidates or working for candidates, but they might be interested in spending money to try to influence the political course of history. How should they spend, or rather invest, that money?

CASEY: Politics is probably a poor investment in any event. I'd say first of all, if you want to do something, do it for your own personal gratification rather than because you expect to actually change people's ideas. Nobody can convince anybody else of anything. People come to conclusions and opinions that they have because of a lifetime of experiences. They'll change those conclusions or opinions in their own good time. Going out and proselytizing and standing on stump posts trying to expose people to the way, the truth, and the light is almost always a waste of time. The only people you convert are people looking for something that they can be true believers in. If they didn't become libertarians, they would have become Jehovah's Witnesses or Black Muslims. It's all the same thing.

REASON: Do you have any specific investment ideas that our readers can look forward to?

CASEY: I've got a lot of specific investment ideas, but whether or not they make a little or a lot of money in the grander scheme of things, they're very trivial. Investment advice is just a matter of opinion. I think that the best advice I can give anybody who wants investment help is not to follow anybody's advice, including my own. If you follow my advice today, you'll probably follow somebody else's advice tomorrow and somebody else's the next, and that's a guaranteed formula for disaster. Certainly, when I do research on investment subjects, I try not to read brokerage reports in other newsletters. Those just clutter your mind up with even more trivialities. I try to base any conclusions on things like my reading and science, in particular. There, at least, you're dealing with a real hard physical world, whereas when you're talking to other investment people, you're really just exchanging opinions that may or may not have any relationship to reality.

REASON: There are a number of trends that might be sources of optimism: the development of technology, computers, electronics, and so forth. Do you have any thoughts about the impact they will have on society?

CASEY: Yes, I love technology. Technology is the one consistent theme throughout all of human history that has both increased the average man's standard of living and liberated him in every way possible. It has not been the actions of placard carriers and people running around trying to convince other people that they should do something that has increased the freedom of the average person. It's been scientists and technologists who have done so, and it's very often destructive things that have acted as catalysts for the good. For instance, it was the invention of gunpowder that gave the average guys on the street the power to blow the hell out of the castle on top of the hill where the lord was living who was dominating them. It gave foot soldiers the firearms to put a hole in the armor that only the knight could afford previously, that overthrew the entire feudal system. It was technology in the form of the Industrial Revolution that overthrew preindustrial civilization and gave us what we have today. And of course, it is still continuing in the form of the computer. I'd like to think that I'm doing my little part. For instance, I love automobiles. I've raced cars since I was in high school, and in the near future I hope to build a high-technology automobile which I'll christen, appropriately, I think, the Millenium Falcon. It will be to the James Bond Astin-Martin of the 1960s what an F-15 is to an old B-51. It's the type of car such that if you don't like the government speed laws, and if you don't like being harassed by police on the street, you'll be able to stop them cold. I'll be

able to put that car together for only $15,000 and go out hunting enemies, go out hunting operatives of the state, on nights when I get bored. It's going to be done because of various types of electronics and technology that enable me to liberate myself.

There are many areas of technology that augur very well for the future that you can use personally. In fact, one book I was going to put together was going to be called "The Layman's Guide to High Technology," which would describe various devices that are presently available that you could apply to keep the bad guys off your tail. Of course, like gunpowder and like the Millenium Falcon, these things can be destructive, so I decided not to do the book. It worried me that other people would probably say, "That book should be entitled 'The Terrorist's Guide.' " I'm much more interested in things like technology than I am in investments. Investments are just the means to acquire the technology; they're certainly not an end in themselves.

REASON: You have a lot of ideas for more books. Besides your own personal satisfaction, what, if anything, do you think you accomplish with your books?

CASEY: I think that by having written the books that I've written, which have reached millions of people, and by writing some others, I'll catch a certain number of people at a certain stage in their emotional and intellectual evolution. Perhaps by a stream of argument or a presentation of a fact, I might act as a catalyst to bring them to a conclusion a little bit earlier than they might otherwise have come to that conclusion. ◧

(Continued from p. 65)

he can personally claim a deduction for it. Nevertheless, even in the worst case of oil and gas wells that fail to produce anything, the investor would not have to pay any part of the royalty in cash out of his own pocket until 12 years later.

On the surface, the minimum annual royalty program is only a one-for-one deduction. The investor deducts his share of drilling costs (paid for by his cash investment) and also deducts his share of the liability for the minimum annual royalties on a dollar-for-dollar basis. However, the arrangement in fact results in a multiple deduction because the present value of an obligation due in 12 years is only a fraction of its face value.

You could put cash equal to just one-fourth the potential liability into an interest-earning investment with a 12¼ percent yield, and in 12 years the interest would compound into the full amount of the potential obligation. This reserve would be waiting for you down the road, in case you actually had to pay the minimum royalties yourself. Meanwhile, you can immediately deduct the full amount of the potential obligation. Your immediate total deductions can equal 200 percent of the cash you put into the reserve and the cost of the drilling combined.

It should be noted in addition that the investor will actually pay the minimum royalty out of his own pocket at the end of the 12 years only if the drilling program has failed to produce as expected.

—Minimum royalty mining programs. Some mining programs are handled in the same way. By promising the owner of the mining site a minimum royalty, it is possible to obtain deductions that exceed the amount investors have placed at actual risk (even after allowing for the present value of the royalty obligation).

—Art masters. An investor who purchases machinery or equipment for use in a business is entitled to a tax credit for up to 10 percent of the amount of the purchase. Since the tax benefit is a credit (rather than a deduction from income) it reduces the investor's tax bill dollar for dollar. But an investor can claim a tax credit on an equipment purchase only to the extent to which he is at risk for the purchase price of the equipment.

In an art-master shelter, a company purchases a lithographic plate of an art work—from which prints can then be produced and sold—giving the original plate owner in exchange a full-recourse note (payable in full regardless of what is earned from selling prints of the master). The purchaser, being at risk for the full price, claims a tax credit based on the full price. Then he leases the plate to an investor (who is not at risk for the note) and passes the tax credit to him.

—Book, movie, and record deals. Some of these programs are similar to the minimum royalty oil and gas programs. They achieve large deductions by promising the author a minimum royalty that may not actually be paid in cash for many years.

Others resemble the art-master programs: the asset involved is purchased by a go-between in exchange for a full-recourse note, a large tax credit is claimed, and then the tax credit is passed out to an investor who leases the plates.

The multiple-deduction programs are the most attractive of today's tax-shelter schemes. However, the IRS does not like them. If it can find a way to disallow the deductions or credits an investor claims, it will. This does not mean that you should avoid multiple-deduction shelters, only that you should be especially cautious.

The key element to look for in a multiple-deduction shelter is economic substance. Does the project make sense as a business deal? Does it have a reasonable chance of turning a profit? If it does not, it is not really a business, so far as the tax rules are concerned, and it cannot be the basis for deductions or credits.

A proposal that offers you deductions equal to four or more times your investment is difficult to turn down. Promoters know this. Thus most bad shelters (programs that are unlikely to yield either profit or the promised tax benefits) are dressed up as multiple-deduction deals.

Opinions differ, but I regard the art-master programs as a particularly bad joke—a joke that may have been played on the investors rather than on the IRS. An art master is difficult to appraise; the popularity of living artists changes rapidly, the values of different works by the same artist vary widely, and the relationship between original, one-of-a-kind and limited-edition reproductions is conjectural until the reproductions are actually offered for sale.

This uncertainty seems like an opportunity to place a high value on a lithographic plate and thus claim a large tax credit. But many art-master programs carry the matter too far. To achieve a large tax credit, they assign an implausibly high value to the masters.

The IRS has attacked some programs by insisting that the plates are worth only the cash that was paid for them, thus wiping out most of the tax credit. A number of such controversies are now in the courts, where they probably will stay for the next six or seven years. If the investors lose, they will have to pay back taxes plus interest.

A large fraction of the book, movie, and record deals are in the same class as the art-master programs. To argue that the project has any hope of turning a profit, you must make ludicrously optimistic assumptions about how many books, records, or movie tickets will be sold. Don't invest in one unless you are good at keeping a straight face.

The oil and gas area has its own share of bad multiple-deduction programs—programs so poorly conceived or loaded down with promotional costs that they make no sense as business undertakings. Because they are not bona fide businesses, it is likely that the investors' deductions will be disallowed.

Nevertheless, it is within the oil and gas area that you are most likely to find a multiple-deduction shelter that will stand up to the IRS, since developmental drilling programs are comparatively easy to evaluate as business projects.

Being developmental (rather than exploratory), it is comparatively easy to determine the likelihood that the drilling will be successful and to estimate the amount of petroleum that successful wells will yield. Thus it is possible to demonstrate that an oil and gas program is in fact a business and not a fairy tale dreamed up for tax avoidance.

Unfortunately, there is no way I can provide guidelines to evaluate every program that might be offered to you. But keep in mind two points: First, the program must have a reasonable chance to succeed as a business in order to qualify for tax benefits. People lose money every day in business ventures, but they don't get tax benefits for their efforts unless there were plausible reasons to assume the ventures would succeed. And second, if the tax-shelter promoter makes it appear that his program is putting something over on the IRS, it's more likely he's putting something over on you. ◻

Terry Coxon is the coauthor (with Harry Browne) of Inflation-Proofing Your Investments*; president of Permanent Portfolio Fund; and president of Sonoma Petroleum Corporation. This article is adapted from an article published in* Harry Browne's Special Reports. *Copyright © 1984 by Harry Browne's Special Reports, Inc.*

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VIEWPOINT

"Vital" Interests

BY SAM COHEN AND JOSEPH DOUGLASS

Conventional wars could come in all sizes; if we value our freedom, we must be able to defend ourselves in wars of any size and shape and in any region where we have vital interests. That means developing urgently a better ability to respond to crises far from our shores, and to stay there as long as necessary.

—Secretary of Defense
Caspar Weinberger,
May 5, 1981

Except for a brief period during the final agonizing phase of the Vietnam war and shortly thereafter—when the long-forgotten Nixon Doctrine, which dictated exactly the opposite of the above statement, held sway—the foreign policy summed up by Caspar Weinberger has pretty much been the basic foreign policy of the United States. This goes all the way back to the late 1940s when the strategy of military support for threatened friends and allies around the world was adopted.

Just exactly what interests are vital, meriting military intervention for their protection? This never has been made clear. To be sure, there has been a strong moral factor in this term—the desire to keep our friends and allies free and independent nations. There also has been an economic factor—the belief that the downfall of certain friendly nations can lead to severe economic consequences for ourselves. But these two factors have not been absolutes; they are to be assessed relative to the moral and economic consequences of going to war. These consequences can be severe indeed.

The Vietnam war, fought to defend vital interests in Southeast Asia, produced more than 200,000 casualties, including almost 50,000 deaths. The taxpayer burden has exceeded $400 billion. The costs in domestic misery and divisiveness, while incalculable, were enormous.

Yet the loss of our vital interests in Southeast Asia has not so far produced any truly calamitous national effects. Although held to be vital, our interests in this region obviously were not.

Which brings us to Lebanon. It is claimed by some that the withdrawal of the US Marine contingent threatens a loss of credibility for US policy objectives in a region where our vital interests are at stake.

And indeed, the US presence in Lebanon was a part of a far broader Mideast role—which allegedly is to protect indisputably vital interests in this region. So vital are these interests held to be that the government has announced a willingness to take the United States to war—even to use nuclear weapons—to preserve them. But, again, these most vital interests are not absolutes; their preservation must be balanced against the costs and risks of going to war to preserve them.

If withdrawing the Marines from Lebanon has cost us our credibility for defending the Gulf, maybe we should count our blessings.

Fortunately, cool heads seem to have prevailed recently in decisions over Middle East policy. President Reagan withdrew US troops from Lebanon rather than risk becoming more deeply mired in a no-win imbroglio. And, while proclaiming that the United States could not allow a local war to shut off the flow of oil from the Gulf area, the president has wisely not taken steps to involve the United States in the "holy" war between Iran and Iraq.

Middle East oil is often proclaimed to be in our vital interests—but is it? Most Middle East oil supplies Europe and Japan, not the United States. The flow of oil from the Middle East may be considered *by the Japanese and Europeans* to be in *their* vital interests, but it is not vital to the United States. However much private US interests would like to see the oil flow—interests with heavy investments in European or Japanese industry, interests that can apply pressure to have public resources expended to protect their private interests—there is no vital US interest.

The Soviets are maintaining a growing military presence in the Middle East and now have overall nuclear superiority pertaining to conflict in this area. The Pentagon has estimated that a conventional war between the United States and the Soviet Union over Persian Gulf oil could cost US taxpayers at least a trillion dollars a year—at least 10 times the value of the oil pumped each year. Add the sacrifice in American blood and societal trauma back home, and one is compelled to ask, On what conceivable grounds would such a war be in our vital interests?

Even if, after a long conventional struggle, we began to push Soviet forces out of the Gulf, during which period the oil flow certainly would have ceased, there are no grounds for assuming that the Soviets would abandon their military objectives without first using nuclear weapons. They hardly have developed them for the purpose of non-use.

Clearly, our most vital interest in the Persian Gulf is to stay out of war there. If withdrawing the Marines has cost us our credibility for defending the Gulf, maybe we should count our blessings.

Vital interests has for much too long been an unchallenged catchword used by the government to muster public support for military adventures, most often encouraged by private interests. Even when those adventures fail, the government seeks support to protect still more "vital interests." We would be far better off to stop justifying actions in terms of vital interests and to direct our attention to our dangerously flawed foreign policy of military intervention, which is working increasingly against our supreme national interest: our survival.

Sam Cohen and Joseph Douglass are strategic-military analysts.

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INVESTMENTS

How to Handle a Hot Tip

BY MARK SKOUSEN

My broker called me the other day and, in hushed tones, whispered, "Buy this penny stock, and don't ask any questions—it could pay for your child's education!"

Holy Rukeyser, I thought, if this isn't the classic "hot tip," I'll eat my *Wall Street Journal.*

The conventional wisdom, of course, is to reject all tips out of hand. "Stay away from anything that needs feeding, painting, or cooking," my wise Uncle Ervin once warned me, and I suppose "cooking" could include hot tips from my broker. But the hushed urgency in his voice was enticing, and the amount he was suggesting I invest was not going to break me. I decided to take a chance.

Three weeks later I called to see how the stock was doing, more out of curiosity than concern.

"You're in luck," my broker exclaimed. "The stock has gone from fifty cents a share to four dollars!" I was ecstatic. My $2,000 was now worth over $15,000, on paper at least. It was almost equal to one year at Harvard!

Then it dawned on me. Maybe I would have to give it all back! The Securities and Exchange Commission (SEC) has strict rules against "insider trading," and if my broker *really* had a sure deal this time because he *knew* something was about to happen, then my profits might be considered illegal.

Under the Securities Exchange Act of 1934, it is against the law for a company officer, stockbroker, or investment advisor to profit from "inside information" that has not been disclosed to the public. Moreover, it is illegal for "tippees"—individuals who trade on the tips of insiders—to profit. The SEC has elaborate rules and limitations on what company officers and other "insiders" can and cannot do. For example, company presidents can purchase their own company stock, but they cannot sell it for a certain period of time.

As a financial advisor, I strongly believe that the SEC rules are counterproductive. By restraining experts from acting on their knowledge, they turn the stock market into a gambling casino rather than a source of intelligent investing.

The regulations also give license to the SEC to investigate any stock transaction that results in a substantial profit or avoids a major loss. The SEC has already investigated janitors, newsletter printers, masseuses, flight attendants, and other alleged "tippees." The agency even went after investment advisor Ray Dirks, who uncovered the Equity Funding fraud in the early 1970s. He warned his clients to sell as soon as he found out, before the press (and the SEC!) began to believe his story. Incredibly, he was indicted for illegal insider trading, although he fought back and was finally vindicated last year by the Supreme Court. His story is a prime example of the excesses of a regulatory agency.

The situation is getting worse, I'm sorry to say. Not only is the SEC prosecuting more insider-trading cases, but it supports new legislation that will *triple* the financial penalties for convictions. This will create massive fear among brokers, corporate officers, and investors, who will be afraid of acting on any information that has not been fully disclosed.

Will this increase public disclosure, as the SEC intends? Not at all! As one major broker stated, "It will make it more difficult to get any information from companies, who fear being accused of providing insider information."

The legal restrictions on "hot tips" and "insider trading" are all part of the "age of envy," as financial writer Gary North phrases it. The social attitude is, "If I can't have it, neither can you." The government does not want anyone to profit "unfairly" in the marketplace. Yet market information is, by its very nature, not equally available to everyone. There will always be a profit, sometimes sizeable, for those who are in the right place at the right time. It's as true for the investment analyst who discovers new information about a company and makes it known to his clients as it is for the real-estate speculator who buys an undervalued duplex. In this sense, insider trading is the lifeblood of the marketplace.

I noticed in the *Value Line Investment Survey*, for example, that at least a third of all changes in stock recommendations is due to "surprise" information about companies. Seasoned speculators are always on the lookout for an unexpected change in earnings, merger activity, or new issues—the dynamic characteristics of any major bull market.

European investors have always taken insider information for granted, and its use is quite legal. They are not guilt-ridden with the American anticapitalist mentality or caught up in the "bare-all" financial world of full disclosure.

Let's go back to my own hot tip. Was this actually a case of insider trading, or was it simply a stock broker who recognized a stock that showed fundamental promise?

He said, "I simply had a hunch that another company would take over this one, and I was right." He added, "Don't worry, if the SEC calls, just tell them that I recommended the stock and you took my advice. You didn't know anything beyond that." In other words, if there was inside information involved, it was news to me. As far as I was concerned, it was just a speculative gamble on a typical penny stock. Tricky rules are like that, you know. You have to take your chances.

What should you do if you receive a "hot tip"? Should you respond immediately, as I did this time, or should you quietly hang up on the broker?

It all depends. First ask yourself, "Who is this person?" and "Why is he giving me this great deal?" You need to know the person's background, track record, and credentials. Is he a legitimate investment advisor, or is he just someone who has a great sales technique? Has he been in the business long enough to know what he's talking about? More important, ask yourself why you have been singled out to receive this "sure-fire" moneymaker. Is it because you have been dealing with him for a long time and are therefore a valued customer, or because he wants to make a commission?

Second, follow some traditional rules. Don't get greedy. Spread your risk. Don't invest too much in a single investment. The money you invest in a "hot tip" should be funds you can live without.

Mark Skousen is the author of The Complete Guide to Financial Privacy *(Simon & Schuster). He and his family are living in the Bahamas.*

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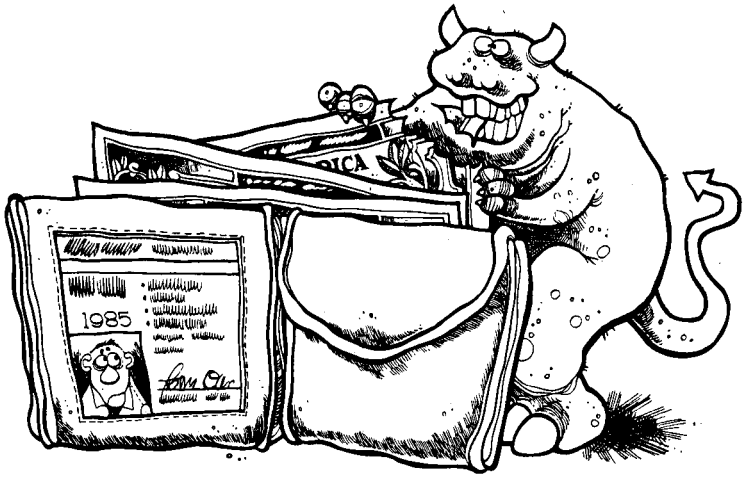

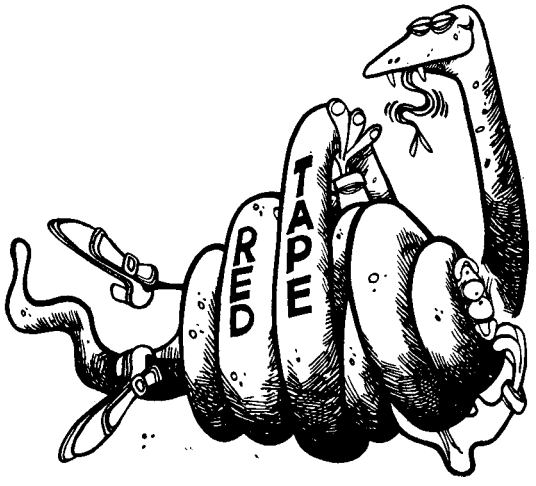

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SPOTLIGHT

Specie Seller, Species Saver

BY PATRICK COX

James R. Cook is a rare bird—a hard-money environmentalist. He has carved himself out a profitable niche in the world of investment, selling metals and coins. And he has combined that success with another, more esoteric venture—the conservation of ducks and their wetland habitat.

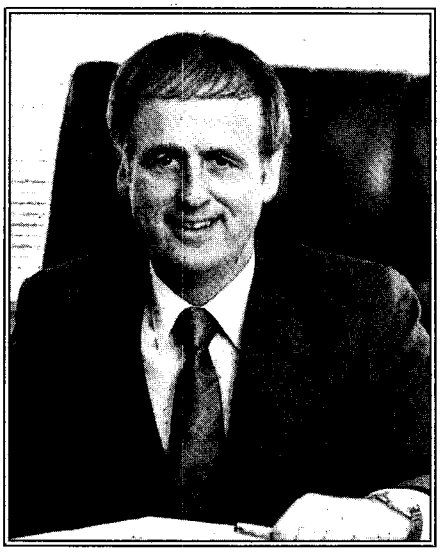
Cook's interest in ducks is long-standing. He was born in 1938 in Saskatchewan, Canada, and grew up in Minnesota, and the rituals and pleasures of duck hunting were an important part of his youth. As a true hunter, he came to be concerned about the health and survival of the species he hunted. By the time Cook was a teenager, he was already disturbed by the disappearance of the wetlands that waterfowl flock to.

Faced with the continuing drainage of wetlands under government programs to subsidize the extension of farmland, the young Cook undertook his own private conservation efforts. He often talked farmers into letting him create a duck pond on their property. Using explosives, he would "blast a pothole" for the ducks. Sometimes he would cajole a dozen friends with wheelbarrows and shovels into doing the work by hand. But Cook eventually realized that his efforts were basically symbolic, since a duck pond in the middle of a plowed field does not really significantly benefit wild ducks. He decided that mounting a real conservation effort would require a lot more money than he was making at the time, so he started looking for a way to get it.

After working briefly for the US Post Office, Cook became a successful broker and for 10 years ran the insurance firm that had been his father's. Eventually he quit that business—he says he was "bored" by it—and went to Florida where he bought a bottled-water franchise. Barely had he purchased the franchise when the company that sold it to him went broke. He and his partner, Cook recounts, were left "high and dry in Miami." But Cook built the nonexistent business into a company that put spring-water vending machines into large apartment complexes. In 1972 they liquidated the business for $150,000.

Cook went back to Minneapolis-St. Paul to think things over. It was then that Jim Cook first started seeing the connection between individual liberty, conservation, and the free market. Without losing his interest in the species of duck that make the Canada-to-US commute every year, he developed an interest in specie. It started with silver and spread to gold, which he came to realize is related to many other things—even ducks.

"Gold is by nature political," observes



JAMES R. COOK

Cook. "Ownership of gold indicates some economic insight that most people don't possess."

In 1974, committed to making enough money really to help the ducks, Cook started Investment Rarities, Inc. (IRI) in Minneapolis-St. Paul. In 1976 the company sold metal and coins worth $500,000 and by 1980 was selling $550 million annually. Today, IRI is the largest dealer of krugerrands in America.

The success of IRI enabled Cook to start looking around at various properties that could be restored to their previous wetland state and provide refuge for his ducks. In North Dakota, South Dakota, and Minnesota, he began to buy and restore over 10,000 acres at 20 different sites. When asked how much the land cost, Cook says insouciantly that the average price of an acre was about $400. These areas are more than duck ponds. Plants that the ducks feed on are introduced or encouraged to grow, and the dry land is uncultivated and unhunted, even by Cook.

Cook still believes in hunting and says he enjoys it when he gets a chance to do it. But his spare time these days tends to be filled with his conservation efforts. He says, in a calm and relatively soft voice, "I really get off restoring drained land—unplugging a ditch and planting dense prairie grass. No one hunts in those areas, because so much wetland has been drained. Even the land that the government buys for duck habitat with duck-stamp fees is subject to overhunting. Ducks need a few friendly places. We manage the land exclusively for the wildlife, and the results are awesome." Though Cook has hired four professional wildlife managers, he is himself heavily involved in the conservation work.

To say that Cook has not done badly for someone who never went to college is wrongfully to imply that a degree is important to the rarest of species, the true entrepreneur. As the national and international economy does worse, provoking an acceleration in hard-money transactions, Cook's business does better. Cook knows that, and the irony shows in his voice when he says, "In the long run, the best thing for the country would be an essentially defunct gold business. I'd rather lose the gold business. I'm diversified, anyway."

Indeed, Cook is diversified. He owns a small oil company, deals in securities, and manages a mutual fund. He is involved in several innovative venture-capital projects, and he has written a book, *The Heroic Entrepreneur*, a combination history and "how-to" book due out this fall.

The word *entrepreneur* does not carry the emotional weight that it should, and Cook is an entrepreneur in more ways than just making money. "The entrepreneur is an icon smasher, someone who brings down the old order," says Cook. He himself is a free-market conservationist and an individual-rights philosopher-merchant.

Can anybody else hear the sounds of icons being smashed?

Patrick Cox is a frequent guest columnist for USA Today *and public affairs director of the Pacific Institute for Public Policy Research.*

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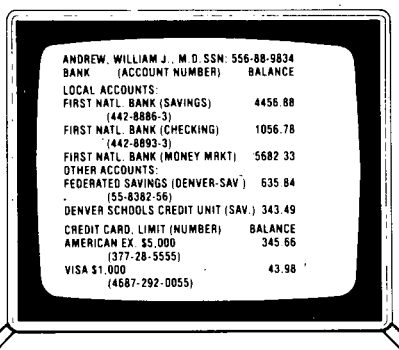

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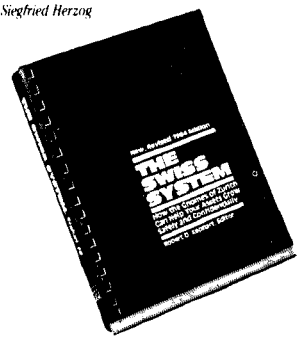

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Robert D. Kephart is editor of **The Swiss System.** The former publisher of *Human Events*, he is also founder of several publications and financial services past and present, among them *Personal Finance, Tax Angles*, and Alexandria House Books. He is currently director of the highly respected *Kephart Seminars International*, and a director or adviser to many international companies.

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ELECTRONIC SALES

Life & Liberty

Beyond the Political

By Marty Zupan

It's twelve years now since I met my first individualist. And the same since I first set eyes on REASON. Who would have guessed then that I would come to know the magazine from the inside out, living, breathing, and sweating it? But I can rummage through my mind and locate a sharply focused picture of my first issue of REASON, just as it looked on the rack in the college bookstore to which I'd been steered by that individualist.

It was the spring of 1972, and I was a young woman of 23. My mother had died the winter past, my wisdom teeth were being pried out, I voted for the first time in the presidential primary, and I met my first individualist. I hadn't a political bone in my body then. "The late '60s" had lived around me, or I around them. I knew neither what Berkeley meant nor who Goldwater was. But those individualists—for the currents of my life soon swept me around and among them—*made sense.* It took no double-barreled argument to convince me that individual liberty is good, nor that it is good across the board, from minds to markets and the other way, too.

In those twelve years the choices and chances of my life have conspired to pull me into the fray. I fight the good fight for individual liberty. But those who respect political freedom, I've noticed, and who hope to see it flourish even if furthering it is not their life's work, often lose sight of the individual and the individual concerns for whom and for which all of this matters.

Politics and political issues *are* important. Government is the most visible, and best-funded, enemy of freedom. So it is not surprising that those who march beneath the banner "free minds and markets" expend great effort seeking to track that institution and its coercive ways; to understand, argue for, and explore the practical implications of a polity differently ordered—ordered, that is, around the principle of individual liberty. And so our time, our conversations, the books we read, our magazines, can become overburdened with issues of politics and, in the 20th century, its attendant science, economics.

Yet we are more. We watch television, go to the opera, travel, select a restaurant, garden, check out the movies, shop, follow sports...We love and learn and raise kids, work and play and entertain.

One would hope that in all this our individualism remains intact and suffuses our endeavors with an appreciation of the wonders, mundane and sublime, of which human beings are capable. Why does the notion of "free minds" inspire? It is not only for its political implications—a person's right to speak his mind and to practice what he preaches (or not). We also honor something more elusive, something akin to enlightenment, to freedom from the burden of ignorance. Yet another facet draws in the imagination—the ability to create art, architecture, music, literature, ideas, products, processes, services. Similarly "free markets" has a richer attraction than the political—a person's right to work and trade freely. The individualist also delights in the bustle of activity and innovation that arises out of free exchange and unrestrained labor.

In each case, freedom in its political aspect provides the condition in which freedom in its richer, more-immediate senses may flourish. Political freedom is to be guarded *so that* each of us may have the opportunity to enjoy our lives as thoughtful and creative and productive individuals—as free individuals.

To reflect on, review, and, in what ways we can, celebrate individuals and their splendid array of endeavors is not to ease our guard over liberty. It is to remind us why, in the end, we care to remain vigilant.

Editor-in-Chief Marty Zupan began her association with REASON with a book review in the December 1972 issue.

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A Happy Ending For Kids' TV?

By Bill Steigerwald

According to Paula Quint, associate director of the Children's Book Council in New York, there are about 50,000 children's books in print in this country, with about 3,000 new quality kids' books published each year—not including texts or mass-market books such as 89-cent Golden Books. She estimates the number of children's book publishers at between 300 and 400. "The diversity of material available to kids from preschool to junior high is amazing," she said.

The children's magazine market is equally vital. Twenty-two national magazines, such as *National Geographic World* and *Boys' Life*, exist for preteens, with eight of them having appeared in the last six years. If you include church- and classroom-related periodicals, the number is 75, according to a 1981 article in *American Libraries.*

Interestingly, the book and magazine industries are near-absolute free markets, thanks largely to their First Amendment protections. There's no government authority that licenses book and magazine publishers, making sure that they serve the children's market or lose their right to make money entertaining and edifying.

Yet a free market in the television industry is the last thing wanted by those

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who worry about the quantity and quality of kids' TV. When the Federal Communications Commission, regulator of the broadcasting industry in the United States, decided last December to reject mandatory programming requirements for children's TV, kids' TV forces weren't cheering.

They say that allowing a free market to exist in the television industry is tantamount to child abuse. Strict government supervision is necessary, they insist, because "the marketplace doesn't work" for children because "there's no profit in kids." They argue that kids' TV already is nearly extinct on the networks and that it will disappear altogether if the commission isn't around.

It's a laudable goal, more and better programs for children. But kidvid activists have assumed without questions that regulation is the way to secure that goal. They have won some battles through the years, but lately it looks as if they're losing the war.

The current FCC, under free-market-minded Chairman Mark Fowler, is busy "unregulating" the whole communications field. Congress appears to be in a similar deregulatory mood; Sen. Robert Packwood (R-Ore.) introduced a bill last year to recognize the same First Amendment rights for the electronic media as the print media enjoy.

Philosophically, Fowler holds that the government has no right to cajole, threaten, coerce—or favor—broadcasters or cable, that even the purveyors of *The Dukes of Hazzard* have First Amendment rights. Practically, Fowler believes that when given the chance, a free television market can determine and satisfy consumers' TV needs—kids' included—much more efficiently than can lawmakers or bureaucrats.

In agitating for government regulation to continue, kids' TV interests fail to appreciate how the government regulatory system itself has been over the years the major determinant of the quality of television fare. It was the FCC that set up and perpetuated the original three-channel commercial television wasteland. Until recently, the agency often shaped its rules and regulations to protect the economic interests of broadcast networks (so-called *free* TV) from competition from upstarts such as cable and pay TV.

With such protection from competition, why *would* the big-three networks scramble to satisfy consumers? In fact, they didn't do much scrambling. The "TV marketplace" that kids' forces claim has failed children was never a real marketplace, and not much about the ability of the industry to meet children's needs should be drawn from past history.

Thankfully, that ancient TV world is gone forever. The returns, in television in general and in children's TV, are rolling in.

Since 1975, when the FCC first started to deregulate the television marketplace, new technologies and entrepreneurs have brought consumers a taste of cable's long-heralded diversity. Today, there are more than 30 satellite-fed basic cable services and 10 national pay-TV channels, with about 30 other networks announced or proposed. Low-power TV, satellite TV, and other known and unknown video forms lie ahead.

There are lots of good kids' shows on TV already. (The problem is that kids—who watch just about anything at any time—won't watch them.) Independent stations air kids' shows; PBS offers more than 30 hours a week; and on cable, the medium best suited in the long run to providing children and other viewing minorities with shows, USA Network carries *Calliope* and HBO offers Muppetmaster Jim Henson's *Fraggle Rock.* Nickelodeon, with 10-million-plus cable homes, and the Disney Channel, a pay channel, both are whole channels devoted to children's programming.

But children's TV activists seem unimpressed by these early blessings of the video revolution. They narrow their vision to the shortcomings of the networks—those mass-minded dinosaurs-in-decline who've cut back to occasional after-school specials and universally decried Saturday-morning cartoons.

They discount cable because it goes to

(Continued on p. 94)

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The Book Case

A Tale of Two Countries

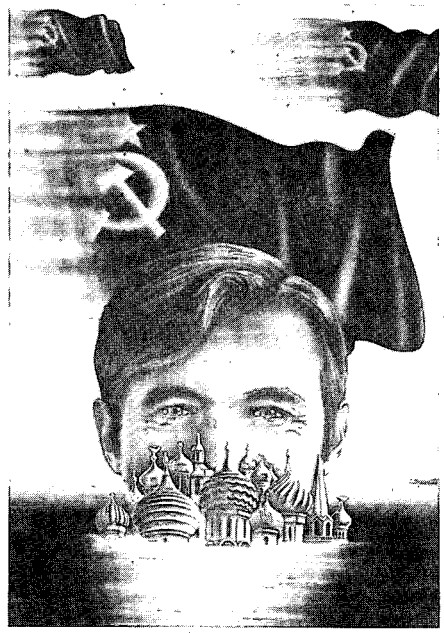
The Island of Crimea
By Vassily Aksyonov
Translated by Michael Henry Heim
New York: Random House.
369 pp. $16.95.

Reviewed by Erika Holzer

What if the peninsular Crimea had been an island, successfully defended by the White Army in 1920, and subsequently developed as a Russian-style Western democracy practically within spitting distance of the totalitarian mainland of the Soviet Union? This geographical and political fantasy is the starting point of a satirical and, at times, surrealistic novel of political ideas by Vassily Aksyonov.

Such an intriguing plot premise, explored by a man whose previous writing led to his forced emigration from the Soviet Union in 1980, might lead one to anticipate a dramatization of the vividly contrasting elements of freedom versus slavery along the lines, say, of West and East Berlin. Not so. At first blush, *The Island of Crimea* appears to be politically and morally ambiguous: more opposed to capitalism than it is to communism in its patronizing contempt for the commercialism of the former, as opposed to its frustration over the dogmatic inefficiency of the latter.

The novel's middle-aged, high-living bachelor hero (or anti-hero—here, too, the author is ambiguous) is Andrei Luchnikov—"Looch" to his pleasure-loving friends on both sides of the Iron Curtain. As publisher-editor of the Crimea's most popular and influential, albeit leftist, newspaper, *The Courier*, Andrei is both opinionmaker and subtle interpreter of the public pulse on his democratic island. Both roles serve him well in his quest-turned-obsession to bring about what he calls the Idea of the Common Fate: *voluntary* reunification of the Crimea with the Soviet Union. What's his motive? As Andrei ruminates in undisciplined stream-of-consciousness fashion—while tooling around town in his exotic Peter Turbo (a leftover from his semiprofesional racing days); while flitting off to Paris for business and light entertainment; while shaking off his friendly KGB guides as he roams the Russian countryside in a nostalgic search for his roots—one is served up not so much motivation as fuzzy thinking. To wit, Andrei muses: "Yet one way or another, Russia—decayed, demoralized Russia—continued to give the world its headlines." A like-minded friend speaks of "love, love for the glorious, the pitiful, the powerful, the vulnerable, the one-and-only motherland and what a—you'll excuse the expression—mother she is, our Mother Russia." "Love, past, and future," reflects Andrei, "all blended together into a vague feeling of expectation and hope. The Island and the continent. Russia. The center of life, the place where all roads converged."



A Crimean official, while sharing Andrei's view of a population "demoralized by the turbulence of democracy," nonetheless accuses him of feeding the guilt most Crimeans feel at not having shared Russia's sufferings and "achievements." He deplores Andrei's "preaching capitulation to the Reds" and shudders "to think of the regional committees, the district committees, the propaganda machine." To which an oh-so-bored Andrei replies, "I fail to see your point"—a line that perhaps best sums up the fundamental implausibility of the hero's point of view. For despite his awareness of Soviet repression, censorship, closed borders, and all the rest (none of which are given any reality in the novel); despite his knowledge that a Sovietization of the Crimea can only mean, not just elimination of the opulence he so obviously and hypocritically deplores, but also destruction of that constitutional democracy's hard-won freedoms (which, likewise, go undramatized in the novel); and despite the fact that he will almost certainly be sacrificing to the cause all the people he loves (White Army hero father, independent-minded son, a couple of mistresses, privileged-class friends and fellow causemakers, and, most of all, himself), he forges ahead with not much more to guide him than a vague sense of historical mission. When he succeeds, when the Crimea's Duma formally petitions for admission into the Soviet Union, followed by an unnecessary but inevitable Soviet invasion, complete with troops, tanks, arrests, and executions, he succumbs not to horror or remorse but to mildly bewildered passivity and the ministrations of a priest.

Is *Island of Crimea*, then, a le Carré-style drama in which, like the CIA and the KGB, capitalist and communist worlds are depicted as but two halves of the same rotten apple? *Only* at first blush. By the end, one realizes that what dominates the novel thematically is a pseudoromantic notion of Russian nationalism and its handmaiden, mysticism. The author seems to be saying that ideology of whatever kind be damned, it's blood that counts! "If we're going to have any influence on Russia's bloodstream, we've got to inject ourselves into it," Andrei argues.

But not at the cost of spilled blood—for it is on this point that the unrealistic Andrei and his creator part company. What clearly emerges from the novel's events is the view that, yes, capitalism is decadent. "Let's get out of this hellhole of a fun house!" this "pseudoworld" of elegant bistros and overstocked stores, Andrei urges his Russian mistress—he, offended by his "immorally rich country"; she, preferring "a world where you can't get anything you need and everybody's afraid of everything" over a "sickening" place where "they've got everything they could possibly want and then some, but it's never enough, so they prostitute themselves for new delights." And yes, communism is impossible to live with, or under. Sham elections, "rigid" Soviet leadership, the "breakdown of human economy," and "mass terror" and slave labor—which are stressed, not as *per se* horrors, but merely as the high points of Stalin's "mind-boggling incompetence." But

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THE BOOK CASE

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By Alan Burris

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still, a gradual return to socialism under communist rule would be better for the soul—that ineffable Russian soul—than life under capitalism, *if only* those foolish and short-sighted Soviet officials would listen to reason, let in the creative people, be open to reform. The message is clear, however: since we are dealing with "liars and dunces" (not monsters?), no such arrangement is practical in the foreseeable future.

The content of message and theme aside, how effectively are they conveyed? Critics have praised the novel's literary quality, comparing the author to Dostoyevsky. Dostoyevsky, who mastered the art of integrating complex themes into suspenseful, logically structured plots, whose in-depth psychological portraits made the motivation of his characters crystal clear—*that* Dostoyevsky? *Island of Crimea*, like a car behaving unpredictably on unfamiliar roads, runs on rambling, loosely strung-together episodes: some dull, some weighted by heavy-handed symbolism, some evoking fascinating glimpses into Soviet life unfamiliar to the Westerner. And if the protagonist's motivation is muddied, the lesser characters suffer a worse fate: they are props, erected to deliver a telling speech or sacrificed to make a political point or sacrificed literally—killed off—to satisfy, not the demands of plot or character, but symbolism that is all too often murky.

Some characters begin to endear themselves: Andrei's bewilderingly fatalistic father, a man of potentially heroic proportions that are never filled in; a dedicated communist official who, instead of presiding over the demise of the island he secretly loves, bemoans its fate and seals his own, thus giving the novel a fine ironic twist. But don't look for a hero with whom to identify. Andrei is too crudely brash, too macho (he drives a mean racing car and prefers "whores to their respectable sisters"), too woolly-headed to be trusted with a laundry list, let alone an opinion-molding newspaper. As for heroines, his mistress Tanya, popular Soviet sportscaster and one-time undefeated hurdler, has surface qualifications: beauty, fame, sex appeal. Being sporadically promiscuous, irresponsible, petulant, and annoyingly out of focus, however, she does not wear well. Nor does her American replacement, a hippie-turned-intellectual with a born-again flavor of fanatical "idealism."

Too often, both dialogue and introspection are awkward or ring false. Says Tanya: "What's the matter, you bitch?

Are your eyes stuck out on their stalks?" Reflects Andrei: "I've freaked out on politics, that's my trouble; I've let this damn reunification thing go to my head...I've turned into a real rat fink."

The book is strongest on descriptive passages, scenes that are startlingly vivid in their imagery (including an arresting chapter on a climactic racing competition), with one surpassing the rest—the touching surrender of the aging White Guards, survivors of a legacy: "several hundred old men...in military formation and dress: decrepit overcoats falling apart...weapons of sorts.... The television cameras...zoomed in on individual faces...on cobwebs of sclerotic veins, on watery or glassy eyes...hunched backs, vast paunches, extremities racked with arthritis, on the wheelchairs some...had reported in."

Island of Crimea, with all its flaws, is a novel that demands to be taken seriously—both by its author and by the ideas it dramatizes. One hopes the true nature of those ideas will not be lost in the glow of the critical acclaim it has been receiving elsewhere.

Erika Holzer is a lawyer-turned-novelist whose human rights espionage novel Double Crossing *was published in 1983 by G. P. Putnam's Sons.*

Trimming the Sails of Big Government

Tyranny of the Status Quo
By Milton and Rose Friedman
San Diego and New York: Harcourt Brace Jovanovich
182 pp. $10.95.

Reviewed by William A. Niskanen

Milton and Rose Friedman have a record of clear writing and incisive analysis in the consistent defense of liberty, and an ebullient optimism that ideas matter. Their new book, *Tyranny of the Status Quo*, prepared as material for a TV series scheduled later this year, continues that record. Most of this material is not new, but the basic ideas deserve repeating.

The Friedmans' general theme is that the growth of government during the last half century has contributed to many conditions about which Americans now broadly express concern. Some of the examples are dramatic: Student test scores have progressively declined although real spending per student has multiplied. Crime rates have increased rapidly although real per capita spending for law enforcement has also multiplied. These disturbing correlations are not sufficient to identify the direction of causation, but they suggest, at a minimum, that the growth of government has not been very effective in resolving these concerns.

The general explanation of this problem is that an "iron triangle" of concentrated beneficiaries, bureaucrats, and politicians exploited a major change in public opinion beginning in the 1930s to shape government policies in their own interests. Though broadly shared concerns were used to rationalize these new policies, these policies are better explained by the hypothesis that the key groups attempted to command more resources through government for their personal ends. Indeed, these groups are better served the worse the problem, since more government resources are then likely to flow in their direction, increasing their power and benefits. This is true until the general public recognizes that the policies may have contributed to the problem or, at least, were not very effective in reducing it.

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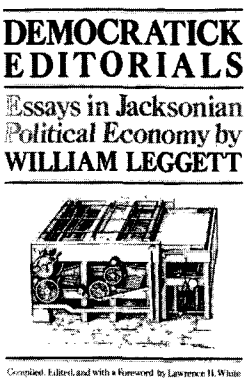

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The Friedmans recommend a set of four constitutional amendments to limit the economic powers of the federal government as a general solution to this situation:

- require a *planned* balance in the federal budget and limit the tax share of national income;
- give the president an item veto;
- replace the present income tax with a flat-rate tax; and
- require a fixed low rate of growth of the money supply.

They recognize that a broad public understanding and support are necessary both to implement and to sustain such amendments, and they may have contributed to an understanding of these issues more than anyone.

Some new readers of the Friedmans are likely to be shocked. Many conservatives may be outraged by their proposal to legalize drugs. Many liberals may be outraged by their conclusion that "the real threat (to our national security) is the welfare state." Some readers are likely to be surprised that Milton Friedman seems to have changed his earlier position that a tolerance for deficits encourages spending; the evidence bearing on this issue is not conclusive, but I am more inclined to believe his new position.

So far, so good. This new book, however, is weakened by a number of problems. First, the title is misleading. The problems they describe are due more to the "iron triangle" than to a tyranny of the status quo. There is an optimal amount of inertia in any institution. The government would not have grown as fast if there had been greater inertia in the past.

Second, some of the facts are wrong. In general, government domestic spending has not grown less rapidly under the Republicans. The Reagan administration did not increase the trigger prices on steel. The federal government does not subsidize the production of tobacco. One major professional inference, I suggest, is also wrong. The Friedmans attribute the unusually high interest rates and the unusual decline in inflation during the last several years to the unusual variability in money growth. This conjecture has not been confirmed by the empirical literature and is inconsistent with the large increase in the value of the dollar during the same period.

A third problem weakens the Friedmans' presentation: Some of the more striking statements seem overdrawn. One need not assert that "the real threat (to our national security) is the welfare state," or that "crime has risen... largely *because* of the government's growth," to make the valid points about the relations of these conditions.

Finally, the charge that politicians who vote for both government deficits and a balanced-budget amendment are "hypocrites" seems both unfair and counterproductive. Even the Friedmans, presumably, make use of tax shelters that they would propose be eliminated. The purpose of the constitutional amendments they propose is to make good economic policy safe for politicians.

I wish that this book had been prepared more carefully, because these minor problems may deflect attention from their important central arguments. Their primary contribution is to make the point that some specific changes to our Constitution may be necessary to "secure the blessings of Liberty to ourselves and our Posterity." Right on!

William A. Niskanen is a member of the President's Council of Economic Advisers.

Healers or Quacks?

Health and Healing: Understanding Conventional and Alternative Medicine
By Andrew Weil
Boston: Houghton Mifflin.
296 pp. $13.45.

Reviewed by Jane Orient, M.D.

"Mystification may seem a reasonable way to protect the trade secrets of a medical guild, but it is not really in the larger interests of either doctors or patients," says Andrew Weil in *Health and Healing*. Orthodox medicine predominates only because of its wealth and political power, according to Weil, a licensed physician. The public, increasingly disenchanted with medicine's materialistic basis, has been turning to alternate forms of practice that claim to minister to human spiritual needs and encourage patient autonomy.

In *Health and Healing*, Weil refers to orthodox medicine as "allopathy," a term coined in the days when bleeding and purging were the mainstays of therapy. Such treatment, along with the arrogance of its practitioners, spurred the Popular Health Movement, which managed to repeal medical licensing laws in most states in the 1840s (although they were later restored). Gentler, if no

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more effective, treatments such as homeopathy became legitimate.

Despite the undeniable successes of science and technology in alleviating many ills, the limitations of medical science have disappointed initially unbounded expectations. As in the past century, the monopoly of organized medicine is again being challenged. Today, the battle is not for delicensure but for extending the state's imprimatur to many other styles of practice. The banner may be autonomy, but the motive is in most cases access to the vast store of

The theory of "energy flow" (charted in this Ming-period diagram) is internally consistent—as was the theory of blood-letting.

other people's money (insurance funds and government subsidies), available only to accredited "providers." Weil himself comments only briefly on licensing laws. Primarily, he challenges the legitimacy of orthodox medicine's exclusive claim to the mantle of science, one of the strongest arguments of the medical guild.

Weil asserts that all of medical science is based on outmoded physics. While admonishing doctors to learn from modern physics that the interactions of mind and matter can no longer be ignored as "unscientific," his own understanding of the subject is suspect. He incorrectly attributes our knowledge of electricity and magnetism to Isaac Newton. From the unquestioned fact that an observer perturbs the motions of electrons, his conclusion that the mind shapes external reality is possible but by no means necessary. Most physicists would still place the ancient mind-body problem in the realm of philosophy.

Weil's belief that physicians, in contrast to physicists, feel threatened by mysticism, is unfounded in my experience. The portal of the Columbia-Presbyterian Medical Center in New York bears the inscription: "For of the Most High cometh healing." Cynics have long said: "God heals, and the doctor takes the fee." Scientific medicine, like physics, has a limited range. The physician may well acknowledge that a patient needs a priest for spiritual comfort and a grandmother for nurture and affection, while denying that the physician can or should fulfill these roles. Weil, however, places no boundaries on the physician's responsibilities. Furthermore, he takes the astonishing position that medicine is poor *science* because of its lack of attention to unmeasurable, indefinable factors. Thus, Weil seeks scientific knowledge from a study of alternative, often mystical systems.

Much of *Health and Healing* is devoted to an interesting description of homeopathy, Christian Science, shamanism, faith healing, chiropractic, Chinese traditional medicine, naturopathy, and a variety of other theories. All may have something to contribute to the art of medicine, or may be valuable techniques in certain circumstances, but they all claim to be comprehensive in scope. Testimonials of amazing cures can be found for all of them. However, the very existence of so many different systems must raise the suspicion that none of them work very well.

Naturally, one must inquire, as Weil does, how to tell a genuine healer from a quack: "I may not be able to define quackery simply, but as with pornography, I know it when I see it." The key seems to be the intention to deceive: "Practitioners who genuinely believe in their methods and who are able to create belief in patients about the possibility of cure are not quacks in my judgment." Faith, then, is the unifying principle in successful treatment and probably explains the placebo effect. The validity of one's faith is irrelevant. Though it is wrong to deceive others deliberately, it may be morally laudable to deceive ourselves unconsciously.

The Roman Catholic Church, which canonizes saints on the basis of miraculous cures, insists upon a Devil's Advocate to scrutinize the diagnosis and prognosis of the illness and to try to discredit the miracle. Paradoxically, Weil does away with this functionary in the name of science. He calls Chinese medicine between the 10th and 13th centuries a "true science"—although it prohibited the autopsy, medicine's "altar of truth." Similarly, his "investigations" of anecdotes of many other systems of healing do not insist upon a pathologically confirmed diagnosis.

As Weil states, science is primarily a method, characterized by reproducibility, communicability, and self-correction. However, he does not insist on these features when evaluating whether or not an alternative therapy is worthy of study. Students asking for guidance in this matter are advised to pursue "whatever grabs you, whatever you think you might use." One of the practitioners to whom he refers his private patients claims to be able to detect the pulsations of the cerebrospinal fluid through the skull—although he is unable to teach this skill to others because they are "insufficiently sensitive." Similarly, Edgar Cayce, a popular psychic who practiced medicine based on his revelations, was unable to transmit his method to his disciples.

Characteristics that do attract Weil to a system include its ability to "satisfy a patient's needs." Unfortunately, this may depend upon a practitioner's willingness to tell the patient whatever he wants to hear. Also, he is impressed by a "clear and unified theory" of "health as wholeness, perfection, and balance." Certainly, Chinese traditional medicine has an internally consistent theory, even if its concepts of "energy flow" do not seem to correspond to any material reality. Of course, the adherents of bleeding and purging had equally logical theories.

In other ways, Weil is inconsistent, criticizing features of orthodox medicine that he praises in other contexts. He believes that physicians' preferences for potent drugs trade a dramatic, rapid effect for the risk of adverse reactions. (The heart-failure patient drowning in the fluid in his lungs is even more interested in rapid action than is his physician.) On the other hand, Weil is favorably impressed by an Ingano Indian healer named Luis who indiscriminately gives hallucinogens to pregnant women, children, and patients who are delirious with fever. Whereas Samuel Hahnemann, founder of homeopathy, recommended the use of pure drugs, Weil himself believes in the superiority of plant extracts, whose unknown impurities supposedly protect patients from toxicity, although they probably evolved in order to kill insects. Weil is not unvarying in his approbation of the unorthodox. Naturopaths who rely on the inaccurate technique of hairshaft analysis to prescribe bizarre dietary regimens are considered to be no different from allo-

paths who rely too heavily on laboratory results, even if the latter are at least reproducible and based on correct concepts of biochemistry and physiology.

Health and Healing emphasizes the importance of faith in promoting recovery from illness. Faith implies the existence of an authority. Replacing the authority of impersonal science with that of the personality of the healer, as in many alternative systems, has disturbing implications. Unlike the grandmother who cures with chicken soup, the shaman has a vested interest in keeping his patient dependent on him. Even if the herbs were free of side effects (a dangerous and unproved assumption), this very dependence can harm the patient. Suppressing the ability to reason and encouraging faith in nonsense, however laudable the intention to heal, makes the patients susceptible to the very authoritarianism and mystification that Weil claims to oppose.

William James, founder of scientific psychology, said before the Massachusetts Legislature in 1898: "Certainly every nation has the...medical practice it deserves. A people that loves quacks will have them, laws or no laws." The claims of the shamans could not withstand an objective scientific inquiry, but such practitioners thrive in spite of regulations and licensing. They have even found in Andrew Weil a proponent with scientific credentials, who lectures in a required course in an orthodox medical school. Rather than conferring the approval of the state upon whatever claimants can arouse popular support, it might be well to recall the salutary results, cited by Weil, of the earlier delicensure: the practices of bleeding and purging died a natural death.

Jane Orient, a medical doctor, has a private practice in Arizona.

One Country—Two Cultures

America II
By Richard Louv
Los Angeles: J. P. Tarcher.
279 pp. $15.95.

Reviewed by Karl Hess

"We are now," according to Richard Louv in *America II*, "two cultures." One culture, America I, includes "all those people left behind" in

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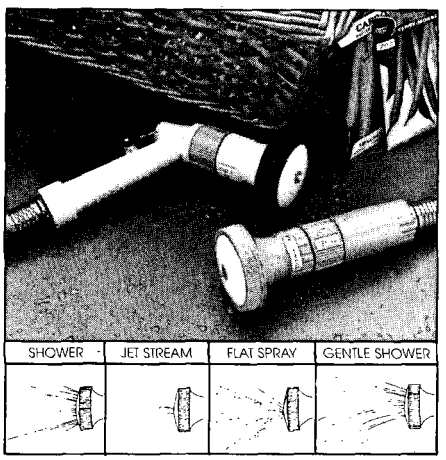

The biggest problem with most hose nozzles is getting and maintaining the desired water flow. The answer is Nozzle Five. This hose nozzle lets you set water flow to any of five positions. Use the shower setting for heavy watering or car washing, gentle shower for potted plants or window boxes, flat spray for misting foliage and the jet stream for force cleaning patios, decks and gutters. The fifth setting is a convenient stop action. Nozzle Five is made of noncorrosive plastic. We offer it in two versions: pistol grip model (left) for ever greater control over water flow for **$14.00** ($2.95) #A1046 and a standard model (right) for just **$11.00** ($1.95) #A481.

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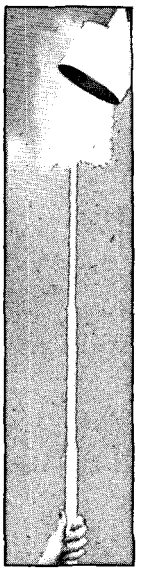

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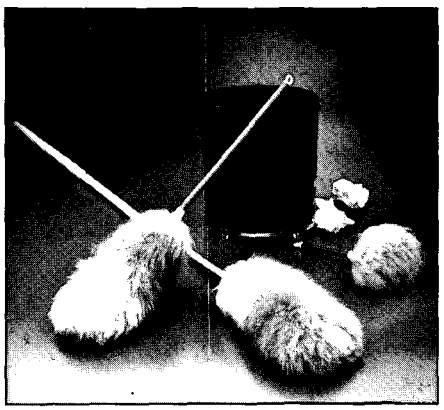

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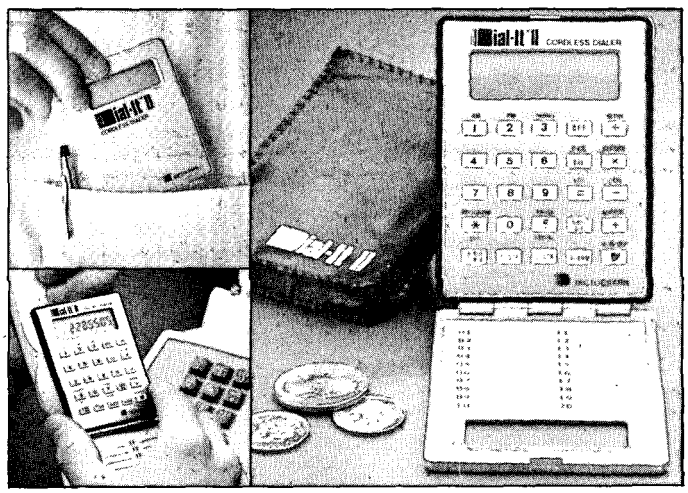

Perfect companion for home and office, on the road, at conventions and meetings. If the telephone is your lifeline, the Dial-It II is a lifesaver. Remarkably, only **$69.00** ($3.95) each, #A1076. 90-day warranty. Circuitry allows battery change without memory loss.

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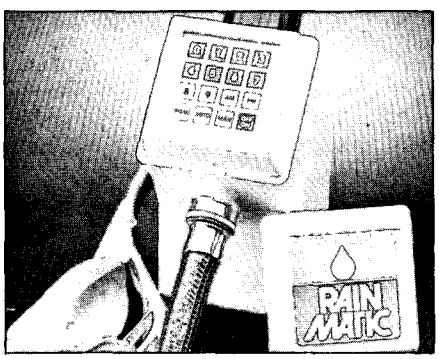

An Omaha, Nebraska man went looking for a control to turn his lawn sprinkler on and off automatically while he was away on vacation. He couldn't find anything short of installing an expensive underground system. So he invented the RainMatic computerized water control unit. It screws in between faucet and hose and allows you to program up to eight different watering periods per day for each day of the week. At each programmed interval the RainMatic turns the water on and off automatically. You've never had such freedom from lawn and garden watering chores. The RainMatic has a manual bypass, operates on 4 alkaline D-cells (not included) and costs **$59.00** ($4.95) #A1080. It is especially convenient for drip-irrigation systems. One year limited warranty.

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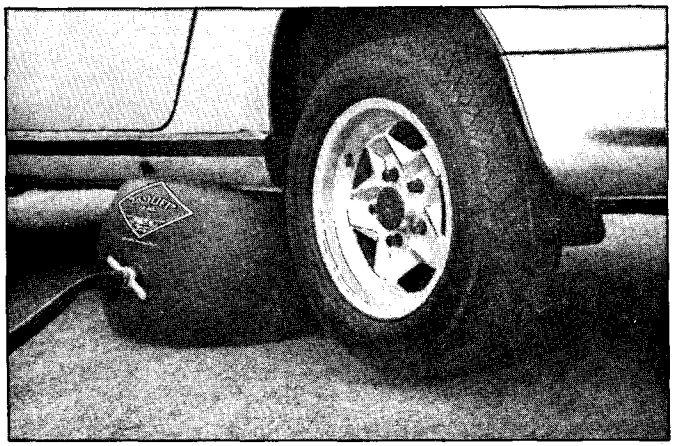
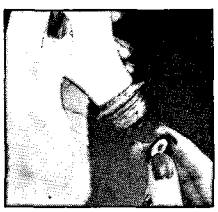
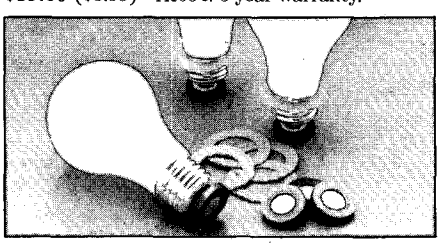


Why should *you* do the work when your car is perfectly capable of jacking *itself* up? Surprised? Don't be. It's all basic physics. Just position the Easylift Air Jack under the car, connect the hose to the end of the exhaust pipe, start the engine, and *voila*!, your car gradually rises on its own hot air. In minutes your car is off the ground ready for tire changing. The Easylift is made of PVC-coated nylon mesh with welded seams (the same construction used for giant transport bags that hold 75 tons of cement). Large 21″ diameter means car can not roll off jack. Needs only 1″ clearance to fit under vehicle. Great for getting out of ruts or jacking on ice, snow, uneven ground. Compact enough to store in spare tire well. New double locking valve allows gradual deflation. The Easylift provides 16″ of lift to a two-ton vehicle and makes it absolutely easy for anyone to quickly and safely jack up a car. Made in England, and it carries a one-year warranty and costs **$47.00** ($4.95) #A1142.

UL LIGHT BUTTONS



They are familiar household conveniences now, the little half-wave rectifier buttons that attach to the bottom of light bulbs and extend their life up to 90 times, sparing you the trouble of bulb changing for years at a stretch while you save a bundle in bulb replacement costs. But the patented Screwge Bulb Saver is one of the first to be UL-listed, meaning it has survived nearly two years of strenuous independent laboratory testing and been certified safe for home and commercial use. Screwge Bulb Savers reduce light output so you may want to increase bulb wattage. 6 for **$13.00** ($1.95) #A1052, 12 for **$21.00** ($2.95) #A1053 and 24 for **$39.00** ($3.95) #A1054. 5-year warranty.



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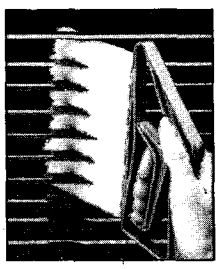

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worn out cities, in jobs that are beginning to look obsolete, and in deep fear of losing all control over their lives.

The other culture, America II, includes:

- the rise of a counterculture libertarian ethic;
- the hunger for personal control in a livable environment;
- the anti-city, a spreading collection of little settlements that "replaces public with private services and has the potential for creating extreme divisions between different economic and racial groups";
- condo and planned communities that have given rise "to an enormous number of private minigovernments" that now "outnumber all the other elected local governments";
- a rush, particularly by independent producers, to rural areas, which offer "enormous possibility for a better life," but also offer "what could potentially be the final destruction of nature and the small-town culture for which so many people yearn"; and,
- "experimental new management styles designed to make the company a 'family.' The unintended consequence is a 'buffering' psychology that may eventually do more to undermine economic security than create it."

Most of Louv's descriptions of America II are anecdotal—material collected first as the resident trend-spotter of the *San Diego Union* and then in a journey around the country. In that journey, much of what Louv saw of America II clearly fascinated and even attracted him. He comes away, however, quite concerned, even alarmed. America II simply will not do. He wants America III.

And what is America III? It is all the nice stuff in America II, such as good places to live, freedom from crime, high standards of living, a sense of community—but...but not subject to market forces, because, according to Louv, proper laws and a revived allegiance to the nation-state are a safer repository for "our" power than the market. In short, Louv fears decentralization without nation-state vision and supervision.

At one point, for instance, Louv seems to find at least some vigorous possibilities in Houston's unzoned jumble. He recognizes that it provides splendid opportunities for the poor to engage in street-vending businesses prohibited to them in more orderly climes where it

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is apparently felt to be more dignified to keep them on the dole. But, finally, he concludes that aid would be better than opportunity, though Louv delicately refrains from observing how much the recipients of aid (welfare and subsidy) have benefited so far.

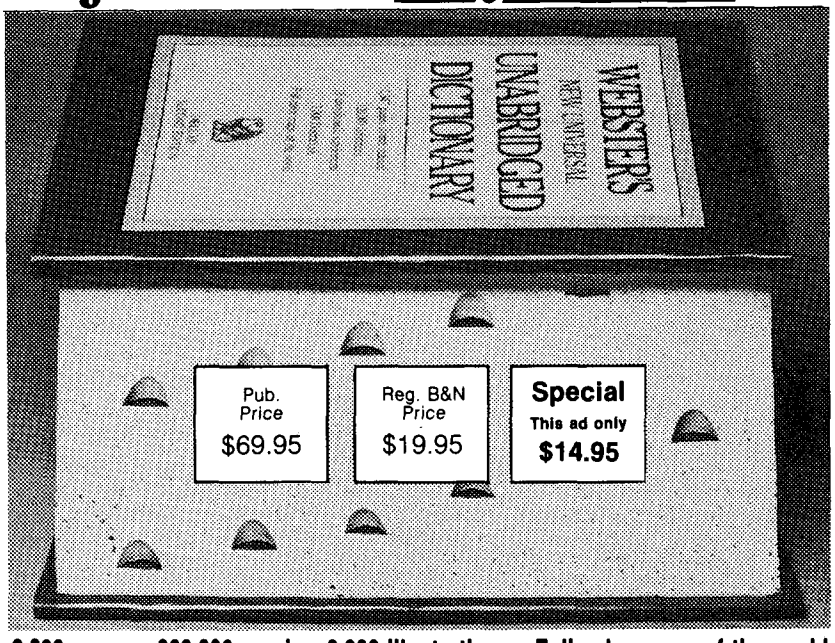
Louv's thinking is equally fuzzy on other issues. For example, he seems not to appreciate the distinction between public regulations and private covenants. The extensive and unbelievably restrictive laws of some condo and planned communities deeply concern Louv, despite the fact that the groups enforcing the laws are purely private. That the ninnies who put up with such laws actually are volunteers who are quite free to leave does not solace Louv at all. He seems entirely to overlook the contrast between these voluntary arrangements and those dandy laws of the nation-state which all of us have to put up with, including the one that says we cannot—repeat, cannot—withdraw from them.

Though Louv recognizes some benefits of decentralization, he fears that a scattering of the population is going to mean less land for the big US farms upon which Louv believes the entire world is going to have to depend. He fails to note that small-scale farms, knowledge- and labor-intensive, yield more per acre than the big farms. Nor does he seem to realize that the world's hungry, for whom he is concerned, would be quite capable of growing their own food, in any way they might see fit, if nation-states did not already totally dominate world agricultural markets—markets that could be free, decentralized, and productive in a world not corseted by state planning.

Corporations trying to emulate the "Japanese kibbutzim" also worry Louv, since he thinks such efforts will lead to the creation of new company towns. At the same time, he wants the national government to start shifting the unemployed around to wherever the jobs might be. Not seeing a specter of even worse company towns in such governmental power is selective vision of a high order.

Louv has also missed those real cutting-edge companies such as Kollmorgen, Cray, and Dayton-Hudson. These companies have taken an even more authentically creative (perhaps America IV?) approach by abandoning almost all hierarchical management, by making everyone responsible for good work, innovation, and profit, and by encouraging exactly the sort of in-

The price of looking it up just went *way down!*



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1983, Barnes & Noble Bookstores, Inc.

dividualistic behavior that the Japanese-style managers would probably find disruptive.

America II has so unhinged the author that he even suggests a national plan to train people "left behind by the new economy not only into high-tech jobs, but into entrepreneurial endeavors." The kind of entrepreneur trained by the national government cannot help but, in some crude quarters, remind us of all those successful entrepreneurs of the past who have grown rich selling penny parts for hundreds of dollars to the steely-eyed purchasing agents of the national government.

Probably my reactions to this book are simply unkind and perhaps not wholly deserved. Richard Louv obviously is a man of good heart and he probably shares many values with even the harshest critics of this book—among whose number I certainly want to be found. But the book cannot be excused on his good intentions and heart any more than he excuses the passions of the rural retreaters or the condo dwellers just because they share *some* of his values.

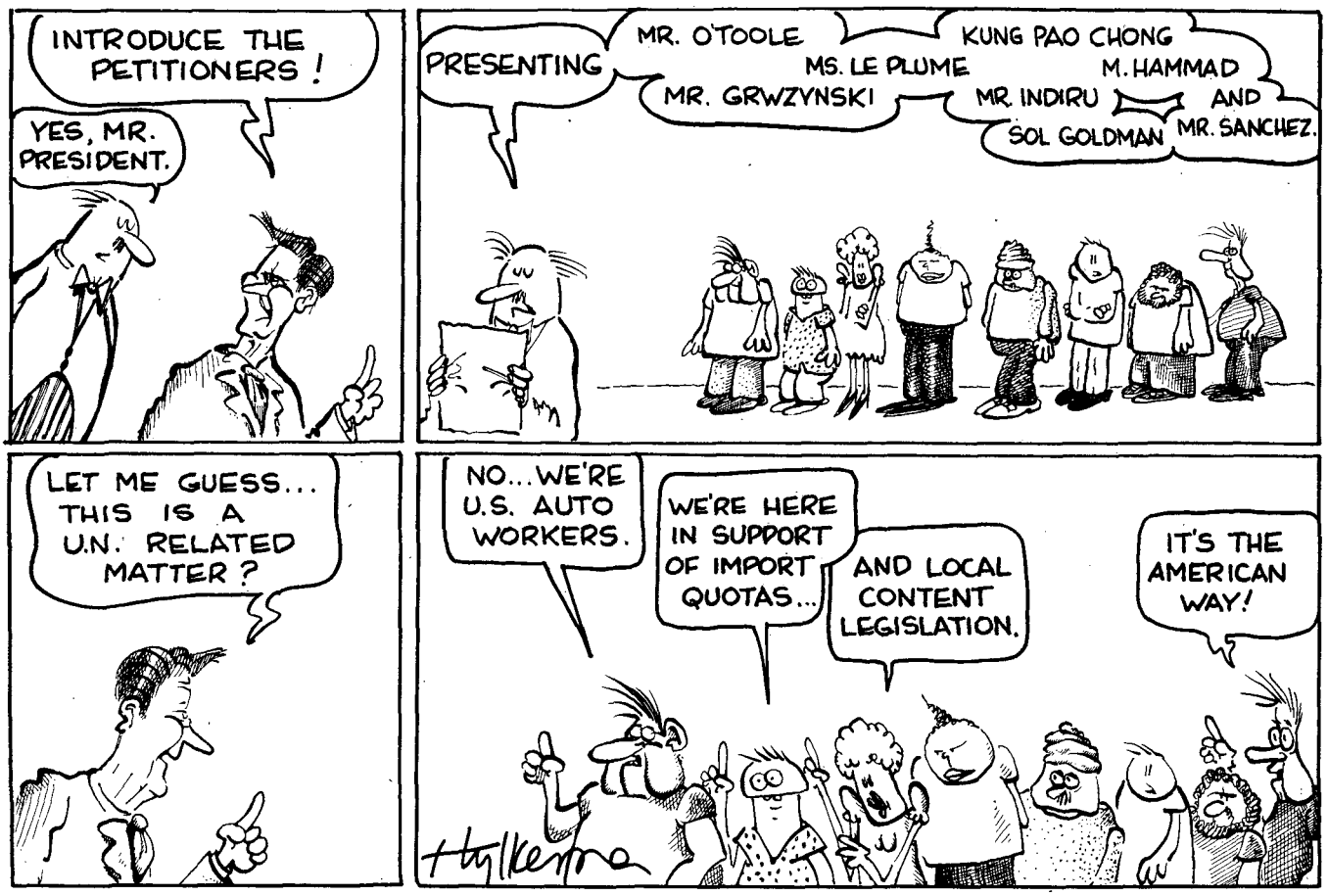
It is the central values that count. Louv attributes the decay of the world around him to insufficient national control. I attribute it to too much national control. He wants a "civilized" refinement of the nation-state. I want a barbarian's abandonment of the entire enterprise. He seeks equity. I seek liberty.

At that level I share Louv's belief that there are two cultures in America. And lest there be any mistake that the two of us are simply looking past one another, not seeing the same things from which to draw our highly biased views of the world, let me conclude with a quotation which, for me, would be worth the price of reading the entire book. The quotation presents one of the most exciting, most practical, and most desirable glimpses of the future I've ever read. It is, in fact, a statement of just how I personally want to live my life. Louv, who does not say much about how he, personally, wants to live, finds the same quotation to be a sort of dark-cloud portent rather than an inspiration. It is a statement made to Louv by Carl Helmers, founder of *Byte* magazine:

Entrepreneurialism is the whole difference between the European mentality and the American mentality. The American mentality is, "Grab your hands onto whatever you need to get it done and go do it." The European mentality is "Check with the authorities first." That's my dream: the independent contractor who doesn't check with the authorities first, getting rid of artificial barriers to flexibility—rules that say you cannot stop this production line, rules that say you can't do things the way you want. I'd love to see the day where just about everybody is an independent contractor to everybody else. . . . I can see independent entrepreneurs running efficient job shops, operating whole factories by themselves

rudebarbs

RANDALL K. HYLKEMA



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using computer simulations and robots. All by themselves. That's the real frontier.

I don't know when such a free society is in store for America's future, but I would certainly opt for it—without at all denying the right of Richard Louv to live however he and his neighbors want to live. The America he hopes for beyond America II would not extend that same right to me. It would not even, as suggested by the conclusion in his book, concede the possibility that free people, unyoked from parental government, could live together in peace and abundance.

Karl Hess, formerly a political speechwriter, is a homesteader in West Virginia.

LETTERS

(Continued from p. 10)

Rich Get Richer," February), I was reminded just how far we have strayed from these principles in this, "the land of the free and the home of the brave..."

Listen to the current crop of presidential aspirants—each is boasting that he can manage our economy better than anyone. Can you imagine the climate in which any American politician is brazenly talking about managing our economy? And for these claims he will be the beneficiary of our endearment?

Have capitalism and free enterprise fallen into such disrepute in America that politicians stalking the highest office in the land use as their main theme one of managing our economy? Good grief! We expend billions for defense against Russian communism to be replaced by what—our own brand of communism? I tell you it's mind boggling.

D. Rothenbuecher
Houma, LA

Privatization—Not So New

I was happy to see that Cincinnati got some recognition for its cost-cutting efforts in your March issue ("Consumer Activists, Meet Privatization," page 17). I must note that this effort in Cincinnati is not a new one and not one that can be attributed to a response to the current municipal fad, "privatization." Cincinnati has a long history of contracting for services as well as a long history of always looking for better ways to deliver services to its citizens. My suggestions, while new, are not all that unexpected in Cincinnati. I would suggest that those who are interested in seeing how a city continues to experiment and improve delivery of its services, come and visit Cincinnati. We have a few buildings which we might be interested in selling since we determined they could be put to better use in the private market—so bring your checkbook.

Peter Strauss
City Councilman
Cincinnati, OH

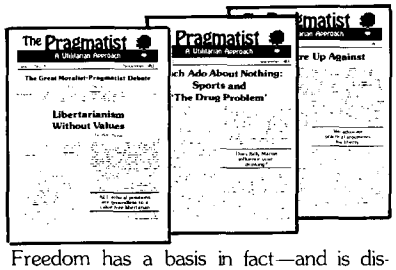
Rationality and Atheism

George Anderson's letter (March, page 11) is a veritable pretzel of double-talk and strained mental contortions.

When he states, "I suspect many reasonable people would agree that not *all* of religious belief is deified ignorance," Mr. Anderson presumes too much. How many reasonable people has he asked? Is he capable of recognizing reasonable people? Reasonable people are those who have applied their reasoning powers to religion and have recognized it for "deified ignorance"; they are not those who suspend their reasoning powers when it comes to religion.

If one scratches the surface of any

Freedom is Discoverable . . .



Freedom has a basis in fact—and is discoverable through the use of utilitarian, empirical and scientific methods. But where do you find such methods? Until now you really had to figure it all out by yourself—a really tough proposition. Now there's a newsletter that gathers and networks this type of information—THE PRAGMATIST. Only $6.00 for six issues —a very small price to pay to discover Freedom.

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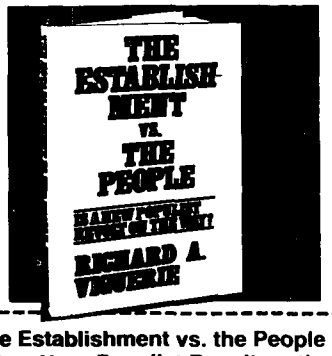

"At present, elitists dominate both parties. Those in the GOP bail out the big banks that lend money to anti-American Third World and communist countries and provide tax credits and loan guarantees for doing business with foreign governments. Those in the Democratic party work to transfer economic power from productive citizens to bureaucrats by unnecessary regulation and over taxation.

On most issues, there's not a dime's worth of difference between the elites of the two major parties."

The Establishment vs. the People —Is a New Populist Revolt on the Way? ***by Richard A. Viguerie***

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LETTERS

atheist who says, "I am really meaningless," one finds a political fanatic, usually fascist, socialist, or communist. Atheists who stand up to scratching are only too aware of their meaning; they rely on themselves, not a supernatural power, to see to their survival by encouraging trade rather than war, by fine-tuning technology to prevent or reverse injuries to the environment, by educating their children how to think (not what to think), so that progress can continue to be made toward a better life for all people.

"If we feel there is no god, we might be tempted to suspect we are the highest authority of any kind." Atheists, because of having applied their reason consistently, know exactly where they fit in nature and in the universe; they are constantly watching for new discoveries to attain ever better knowledge. Unlike Christians, atheists feel secure in the knowledge that there is no higher authority than reason....

" 'I have the Word of God, but I may be in error.' " Need I quote more? What use is "the word of god" if one can still be in error? Why not rely on reason in the first place? At least when reason makes a mistake, reason eventually corrects itself. The word of god has no such built-in safety feature.

I wonder why Mr. Anderson reads REASON. I should think he would be appalled, disgusted, and turned off by most of the articles printed in the magazine—occasional (paid) religious advertising ("The original McGuffey's Readers... were Christian") notwithstanding.

Elke M. Mikaelian
Albuquerque, NM

LIFE & LIBERTY

(Continued from p. 80)

only 40 percent of all households. Or because it's too expensive (although about $20 a month buys basic cable plus one pay channel such as HBO or the Disney Channel). But does every kid need to have access to the same shows? Then why not the same children's books or magazines or video cassettes?

Television today is no nirvana of "narrowcasting" for kids or adults, and it never will be, with or without an FCC. We'll probably never get enough of the kind of shows that the kidvid interests want or think we ought to have, but it's not clear that we really want or need that many anyway.

The free market—with all its change and complexity and surprises, with all its winners and losers—meets children's needs in books and magazines and recordings and toys and clothes. It can work the same "miracle" for kids in television, if we let it.

Bill Steigerwald has three kids. He is a copy editor for the Los Angeles Times*'s arts and entertainment section, where a version of this article was published recently.*

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RICHARD VIGUERIE'S new book *The Establishment vs. the People*: "indispensable for those who would understand the future of American politics" (Lew Lehrman); "a useful way to start 1984...an excellent analysis" (Cong. Newt Gingrich). $12.95, from the American Populist Institute, Dept. R, 777 Leesburg Pike, Falls Church, VA 22043. Also available at your local bookstore.

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LIBERTARIAN COMPUTER PROGRAMMERS. Start watching the help-wanted ads in your area for openings with the Internal Revenue Service.

(Continued on p. 96)

STOP SMOKING IN ½ HOUR FLAT

Even Though You Really Don't Want To Quit!

That was me. A pigheaded, "didn't want to quit", die-hard smoker. Trapped in an aggravating love-affair—with cigarettes.

Openly, I cursed their choking grip on me. Inwardly, I was totally unwilling to do anything else but puff away. Your typical chain-smoker wildly raving about kicking the habit—*and not meaning one single word.*

It was a joke. Unfortunately, the laugh was on me. The grim warnings of the Surgeon General, the American Cancer Society, and my worried doctor all went in one ear and out the other. My tobacco addiction was like a runaway train. Completely out of control and destined for disaster. *Unstoppable!*

Me give up smoking? Better ask for my right arm!

Every so often, I would make a good old college try at quitting cold turkey. Before you could say "Jack Robinson", there I'd be. Frantically scrounging in the garbage for soggy butts. As usual, my good intentions went up in smoke. I was hooked—*again.*

Who was I kidding? Smoking was an undeniable necessity. Super-important to my daily life. How I enjoyed that first eye-opening drag in the morning—that satisfying end-of-the-meal lighting up —that nerve-settling inhalation when things got hectic. Me give up all these irreplaceable pleasures? Better ask for my right arm!

Cancer or no cancer, doctor or no doctor, I loved smoking much too much to ever stop. But one day, I discovered a secret that turned my burning passion into red-hot hate. A secret that set me free in just 30 minutes flat. *Not a single cigarette in 20 years!*

Freed me in 30 minutes! Not a cigarette in 20 years!

My smoking is past-history. Gone without hypnosis, behavior modification, pills, drugs, classroom courses, nail-biting, will-power or climbing the walls. Gone without such games as switching brands, chewing gum, fake candy, diary-keeping or saving dirty stubs in a messy jar.

Gone, too, without gaining an extra ounce. Matter of fact, my wife says that I even lost a couple of pounds. And I never felt better.

Running into an old buddy brought back memories of those "didn't want to quit" days. This 3-packs-a-dayer had tried everything but still couldn't stop. He begged me to outline the details of my remarkable secret.

That night, I wrote it out in plain, step-by-step language anyone could understand and mailed him a copy. After it did the trick for my buddy, he told some of his friends. Soon, I was hunted out by pleading strangers for the same "Stop Smoking Secret."

If you can lick a stamp, you can lick your cigarette habit just as I—and they —did. I know what it's like to have that compelling urge to light up. And I know what it's like to be able to smilingly pass it by without pangs of yearning.

What's more, I know that you can honestly and truly stop smoking for keeps in half an hour flat—even if it's the last thing in the world you'd rather do. All for a ten dollar bill.

© MCMLXXXIV Stop Smoking Co.,
49 West 37th Street, New York, N.Y. 10018

Simply send for my "Stop Smoking Secret" and read it. Yes, it's as easy as that. Just *read* it. I can't tell *how* it works. It just *does*. I guarantee it, with no strings attached.

Guaranteed to work— or your next pack's on me!

If you ever start smoking again after reading my secret—and I mean *ever*— you haven't lost any money. Merely return it for a full, every-penny-back refund plus $1 extra for a pack of cigarettes! *My treat!*

OK. I know exactly what's running through your mind. Even with my fool-proof, risk-free, money-back plus guarantee, you're still looking for a way to get out of sending for my secret. You can't fool me. It's not the money. You'll pocket 100 times your investment in cigarette savings alone. The bottom line is this: You really don't want to quit—*and you'll do anything to avoid it.*

But just this once, listen to that little voice inside your head. Just this once give in to your common sense and give my secret a "look." Watch it automatically work for you in the only way that counts. Permanent no smoking! *Or your next pack's on me!*

Stop Smoking Co.
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New York, N.Y. 10018

OK—I'll take a risk-free look. Here's my $10. Rush the "Stop Smoking Secret." If I ever start smoking again, I can return it for $11 refund. (That's $10 back plus $1 extra for a pack of cigarettes—*GUARANTEED*!)

Name_____

Address_____

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SS-12

(Continued from p. 94)

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ORGANIZATIONS

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THE CLASSIFIED AD DEADLINE FOR THE SEPTEMBER ISSUE IS JULY 1.

PUT YOUR MONEY IN THE SAFEST BANK IN AMERICA

DID YOU KNOW:
One U.S. bank closes every week.
DID YOU KNOW:
Millions of dollars were lost by depositors and bank stockholders in 1988.
DID YOU KNOW:
569,000 depositors have already been affected.

I'M WORRIED—
AND YOU SHOULD BE TOO!

I'm not talking about banks in some dictator-run country with raging hyperinflation; I'm talking about banks in the U.S.A.!

My name is Dennis Turner, my latest financial book is called *When Your Bank Fails*, and it will be worth your while to read on:

The Facts

A record 614 banks—about 1 bank in 20—is on the government's latest list of banks in *serious* difficulty. And believe me, *these 614 banks are just the tip of the* iceberg.

Most bank failures in 1983 (the greatest number since the Depression) were caused by bad domestic loans to farmers, energy-producers, insolvent corporations, and real estate speculators.

174 Billion Reasons to Worry

U.S. bankers don't like to discuss the issue, but if pressed, they say the $174 billion loaned to Brazil, Argentina, and other Third World and Communist countries has been invested wisely, and it will be repaid. (George Clark, V.P. at Citibank: "We think we're going to collect." p. 74)

Bankers point, for example, to the "tremendously successful" switch Brazil has made from gasoline to gasahol.

Sounds impressive, but the fact is: in Brazil the price of fuel produced from sugar cane is more than twice the price of gasoline refined from oil! (p. 52)

Billions of dollars have been wasted in this fashion in virtually every Third World and Communist Country. Such "investments" invariably result in bankruptcy.

Bad News from Government Report

A report by the House Banking Committee revealed that the 9 largest U.S. banks had outstanding Third World and Communist loans equal to 350% of their net worth. Bankers throughout the world are using not only their own capital, but also the money that *you and I* have put into our bank accounts. *Our savings have been shipped abroad.*

You and I—the depositors—are in jeopardy.

More Trouble Coming

Soon I expect one—or several—Third World countries to default on their debt, producing an international financial crisis *within days*. People the world over will be scrambling for cash.

Banks will be forced to sell assets to raise cash. Foreign loans are considered assets by the banks which made them, but will they be able to sell these assets if they need funds?

Sure, the US government will come into the picture, and I devote a chapter to the likely bailout. But even the government can't squeeze blood from stones.

No question about it: billions and billions of dollars have been squandered. The question now becomes: who will absorb the losses? *I do not intend to be one of those who will.* Do you?

Warning from Economist Alan Greenspan

"As we read the numbers, the chances of a dangerous breakdown are the greatest in a half-century." (p. 165)

Avoiding Disaster

There are several *easy and convenient steps* that you should take *right now* to protect yourself—whether you have $1,000 or several million in the bank. You'll learn:

- The early warning signs of collapse. This chapter alone will put you way ahead of the crowd. (chap. 11)
- How to tell if your S&L is strong.
- Two investments that could produce tremendous profits. (p. 187)
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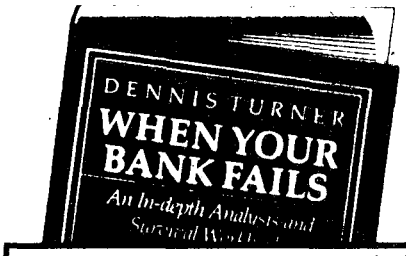

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Further & More

BYPASS BURGEONING

More and more people are abandoning their local telephone monopolies. The byword is *bypass*, and REASON, as far as we know, was the first national magazine to cover the phenomenon (see "Hanging Up on Your Phone Company," Oct. 1983). A recent *Fortune* article says that all told, $100 million in revenues will be bypassing local phone companies in 1984 alone.

Some of the largest-scale and most innovative bypassing is being done by the heaviest users of telephone. *Fortune* reports that Citicorp connects four of its Manhattan buildings with a fiber-optic network underneath city streets, and it handles interoffice calls with microwave transmitters. The *National Journal* reports that in Irving, Texas, 35,000 employees working in an office park complex will soon have access to a communications network that will let them exchange computer data, video, and voice conversations with other tenants in the complex. They will also be served by a computer that automatically chooses the cheapest carrier for long-distance communications and will enjoy connection to satellite dishes and microwave towers nearby.

"What we're creating, in essence, is a local telephone company—an office park-based phone company," the system's developer, David Leininger, told the *Journal*. "Any real estate developer who doesn't do it in the future is simply not going to be competitive with other developers."

Will bypass be a fatal drain on local telephone monopolies? Telecommunications consultant Walter Bolter advises that local monopolies "have just got to focus on being competitive in offering service to the high-volume users." In fact, one of the spinoffs of the old AT&T monopoly, Ameritech, seems headed in that direction. In March, the *Wall Street Journal* noted that Ameritech and Satellite Business Systems will be marketing and operating telecommunications services to 60 buildings around the country to the tune of $130 million in sales and equipment, maintenance, and other services. This may be a harbinger of the "coming competition between AT&T and its former operating companies," consultant Willard Thomas told the *Journal*.

And it looks more and more as though bypass will be the leading edge of the kind of telephone competition the regulators have shied away from—alternative services at the local level.

PRIVATE EYES IN THE SKIES

The privatization of Landsat is edging ever nearer. In early April the House of Representatives unanimously passed a bill setting the ground rules for transferring the government's land remote-sensing satellite system to the private sector. A similar bill is making its way through the Senate.

(To the free-market-minded, Congress's privatization plan is not all that it could be. For instance, it has the federal government subsidizing the eventual Landsat operator for six years after taking over the system, to give the market a chance to develop. And the operator will be prohibited from selling data on an exclusive basis—that is, all comers may buy any and all data.)

Since the Commerce Department called for bids on the landsat system in January, seven firms are in the contest (and this was before Congress had hammered out any ground rules, including the subsidization clause). The eagerness of entrepreneurs to get into the business further corroborates what Patrick Cox had pointed out in his REASON article "Fair Weather" (June 1983): there already exists a robust and growing market for pictures of the Earth and its atmosphere taken by satellites. Geologists looking for ore and oil deposits, for example, rely heavily on such data. And because the satellite photos are useful in accurately forecasting crop yields, farmers and others interested in such predictions (commodities dealers, for instance) constitute another considerable market segment.

The spirited interest in the remote-sensing business also shows the shortsightedness of Congress's earlier decision *not* to privatize the federal government's weather-satellite system. That decision was primarily based on the premise that there would be no market to sustain the profitable provision of what Congress considers a vital service. But if the prospect of private remote-sensing can so quickly conjure up a storm of activity, certainly the sky's the limit for private weather satellites.

AND MORE

• *Defense testing fails again.* The General Accounting Office, Congress's independent investigator, recently released a report highly critical of the military's weapons-testing procedures. The operational testing of weapons in unrealistic settings—thus making favorable performances more likely—and the discounting of unfavorable results were among the report's major criticisms. In an April 1982 REASON article ("Fighting with Failures") that sparked increased scrutiny of the weapons-testing system, weapons analyst Dina Rasor had pointed out many of the inadequacies cited in the GAO report.

• *Environmental economizing.* Colleagues of Zach Willey, who was featured in REASON's March Spotlight, recently proposed that the electricity generated by the government's Hoover Dam be sold at market prices instead of allocated to users on a noncompetitive cost-recovery basis. Writing in the *Wall Street Journal*, Thomas Graff and David Marcus of the Environmental Defense Fund argued that congressional renewal of a 1930 bureaucratic allocation agreement would have environmentally destructive consequences. The proposal, while not so "radical" as to suggest privatization of the dam, is one more instance of environmentalists' growing recognition that economically unsound government policies tend to be environmentally harmful, as well (see "The Environment's Worst Enemy," Trends, April).

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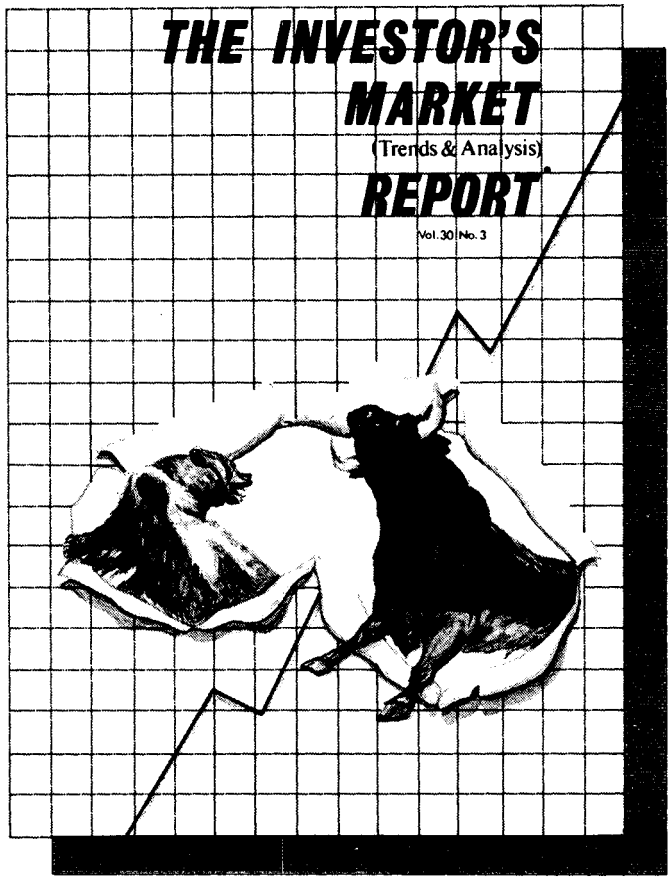

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ESCORT finds radar before radar finds you

You may have been a passenger in a car equipped with a radar detector. Unless the detector was an ESCORT, you probably came away unimpressed.

A Good Idea, But...

The fact is, most radar detectors create more problems than they solve. They buzz and beep for no reason. And when they do pick up radar you're close enough to see the patrol car. But not all detectors are created equal.

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Listen to the experts. When Car and Driver magazine first tested ESCORT, they said "**You will be pleased to know that the radar detector concept has finally lived up to its promise...once you try the ESCORT, all the rest seem a bit primitive.**" Their most recent test adds "**All things considered, the ESCORT is the best piece of electronic protection on the market.**"

Red Alert

Other detectors simply sound an alarm. You have to go on full alert, because you don't have enough information. How close is the radar? Just over the hill, or a mile away? Is it ahead or behind? X band or the insidious K band?

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Advantage ESCORT

Upon radar contact, ESCORT's alert lamp responds and the analog meter shows radar signal strength. At the same time, you will hear an audio warning—pulsing slowly when the radar is weak, quicker as it strengthens, then constant as you approach the radar unit.

ESCORT even uses a separate warning tone for each radar band. "Beep" for X band, a more urgent "brap" for K band because you have less time to act.

Quite simply, ESCORT tells you everything you need to know about radar encounters.

Informed Source

Another problem with most detectors is false alarms. They sound off so often you're never sure if it's radar or something else. Most frequently they're set off by "polluting" radar detectors, cheap imports so carelessly designed they actually *transmit* on radar frequencies. These "polluters" can set off an ordinary detector up to a mile away.

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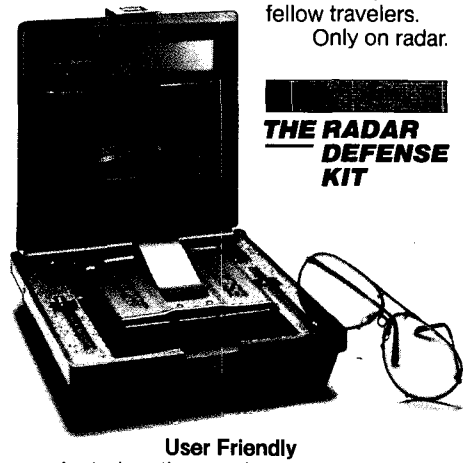

User Friendly

And when the warning does come, it's in a friendly voice. The audible warning is the same frequency used for Morse code (1024 Hz). And a fully adjustable volume control lets you set the level—ESCORT can cut through a Ferrari's interior noise, or leave a resting passenger undisturbed. Even the alert lamp is carefully thought out. It's bright enough to be seen in direct sunlight, but is automatically dimmed during nighttime operation.

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